Kiplinger's
PERSONAL FINANCE

# Don't Go Into Retirement Blind

Get the most out of your next chapter without running out of money. p 44

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FOUNDED 1947

VOL. 74 NO. 2


JOSH RITCHIE

## AHEAD



## INVESTING



## MONEY



ON THE COVER: Photo-illustration by Kevin Childers

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ANDREW LYONS

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FROM THE EDITOR

**Mark Solheim**

# Let Me Explain

Some time ago I promised in this column that *Kiplinger's Personal Finance* would steer clear of politics. I have tried very hard to keep that pledge. But in the December issue, I unintentionally crossed the line.

What got me into hot water with some of you was how I characterized the new tax law. I said that the ballooning federal deficit was "exacerbated by the latest tax law." I also said that "I'm still feeling the pain of the new tax law on my family's budget."

That unleashed a number of reader e-mails. Several readers said that everyone they knew got a tax cut, so what's the deal with me? A few readers noted that federal revenues following passage of the new tax law actually increased.

The comments from Greg nicely (and in a nice way) summed up the reader reaction: "Your negative references to tax reform seem quite biased and likely driven by personal experiences with lost tax deductions. I know that a significant portion of your readers will not share your sentiments, while there is near universal agreement that we indeed have no sense of deficit or spending control as a nation."

I didn't mean to broadly condemn the tax law or reveal a political bias, although I can see why what I wrote was interpreted that way.

**Digging deeper.** I took another look at the tax returns my wife and I filed before and after the tax law took effect. Our tax bill did increase, mainly because of a one-time bonus my (hard-working) wife received and the newly imposed $10,000 cap on deductions for state and local taxes, which sliced off a big chunk of what we used to deduct. However, our marginal tax bracket was lower for 2018, and our federal effective tax rate (the average rate on total income) decreased a little. So, yes, the new law trimmed our tax bill, although I had hoped it would lower it even more.

***YES, THE NEW TAX LAW TRIMMED OUR TAX BILL, ALTHOUGH I HAD HOPED IT WOULD LOWER IT EVEN MORE.***

The interaction of the new tax law, revenues and the deficit is trickier, and I turned to the *Kiplinger Letter*'s staff economist, David Payne, for help in sorting it out. "The theory behind the tax cuts was that they would control the deficit by goosing economic growth so much that revenue would accelerate," he says. That happened a little, he points out, but not enough for the tax cuts to pay for themselves.

Revenues did rise 4% in 2019, according to the Congressional Budget Office. Individual income and payroll taxes have gone up—largely because of wage increases—to offset a decrease in corporate income taxes. No doubt, the increase in the deficit is fueled by a rise in expenditures (3.2% in 2018, 8.3% in 2019). As David explains, the higher expenditures were mostly the result of an increase in automatic payments for entitlements such as Social Security and Medicare, and for interest payments on the public debt.

The point about the deficit I inelegantly tried to make was that if the tax laws had not changed, revenues would have been higher and the deficit would have been lower. I should also have said that increases in spending are a big part of the problem—and I wish Congress and the president would focus more on a plan to reduce the deficit. And I offer that sentiment in the spirit of nonpartisan fiscal responsibility.

Speaking of fiscal responsibility, our cover story offers a 10-step process for zeroing in on how much you need to save for retirement, plus a worksheet to estimate your post-retirement expenses (see page 44). That's an exercise you should do to be sure your balance sheet isn't hijacked by red ink. ■

Mark Solheim

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MARK_SOLHEIM@KIPLINGER.COM
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POON WATCHARA-AMPHAIWAN

# Uber Law Ripple Effect

Regarding California Assembly Bill 5, which reclassifies a group of independent contractors as employees ("Ahead," Dec.): I do tax returns for a number of individuals who work for Uber and Lyft. In my experience, they end up with very little income once expenses are subtracted from their payments. As self-employed contractors, their small-business tax return (Schedule C) allows them to subtract expenses such as cell-phone charges, fees and mileage in support of their passengers. None of those unreimbursed employee expenses will be deductible from their tax returns as W-2 employees. The result will be much higher reported incomes and much larger tax withholding, and thus a significant reduction in the cash they can spend. As employees, they will still wear out their cars but won't get the benefit of expensing the wear and tear resulting from the extreme mileage.

WILLIAM HICKS
GAITHERSBURG, MD.

**Long-term-care claim battles.** I am handling the insurance claim for my 94-year-old mother, who now resides full-time in a memory-care facility ("Long-Term-Care Claims: Avoid the Obstacles," Dec.). As a retired insurance agent with more than 30 years' experience, rarely have I been more frustrated than dealing with the insurer handling my mother's claim. I am having to battle and appeal almost every step of the way, while they seem to interpret the policy as they see fit and ignore policy language if it doesn't suit their needs. I am convinced that typical consumers without my experience are unlikely to understand what is happening and will receive less than they are entitled to.

DAVID MASSEY
SAN ANTONIO

**ESG fund performance.** At the end of "Should Shareholders Share the Wealth?" ("Ahead," Dec.), you wrote that "a growing body of evidence ... suggests you don't have to sacrifice returns to invest in companies that align with your values." Obviously, that depends upon your values (and your politics), but the article ended with a statement from the International Monetary Fund that "the performance of socially responsible funds was comparable to that of traditional stock funds." Not so, according your May 2019 issue. The "ESG-Focused" list of mutual funds showed a category average for the one-year total return significantly below the annualized total return for the S&P 500. It also appears that a "socially responsible" investor must pay for the privilege of lesser performance, as the expense ratios shown for the Top 10 ESG funds are in many cases twice as much as the expense ratios of well-performing "traditional" funds frequently recommended by *Kiplinger's*.

SAMUEL R. LEWIS
OAK HILL, VA.

**The risk of hedging.** James K. Glassman's advice about protecting investments in dangerous markets ("Street Smart," Dec.) left out two things I have heard from many advisers. First, risky times can warrant selling some stock and increasing cash assets such as money market funds and CDs that offer predictable returns. Second, most inverse funds, such as ProShares Short S&P 500 that Glassman mentions, are more suited to day traders and expert investors. The prospectus notes: "Investors in the Fund should actively manage and monitor their investments, as frequently as daily. An investor in the Fund could potentially lose the full principal value of his/her investment within a single day."

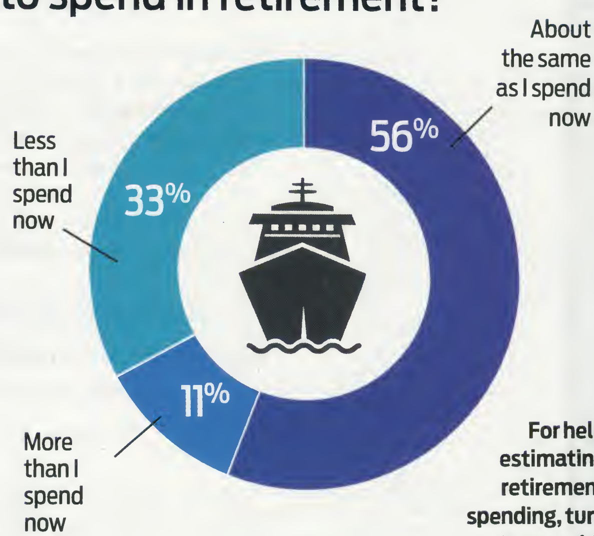
MAUREEN M. SMITH
MINNEAPOLIS

**Taxing 401(k) loans.** Borrowing from a traditional (non-Roth) 401(k) has an additional problem you didn't address: double taxation ("Millennial Money," Nov.). You must pay taxes on the money you earn to repay the loan, and you are taxed again when you withdraw your savings.

JIM MUZZIN
SHELBY TOWNSHIP, MICH.

## Q READER POLL

### How much do you expect to spend in retirement?




For help estimating retirement spending, turn to page 44.

## CONTACT US

Reader Feedback may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger's Personal Finance, 1100 13th St., N.W., Washington, DC 20005, or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.



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# AHEAD

TOPIC A

## GREAT GETAWAYS THAT WON'T BREAK THE BANK

A strong dollar and more competition are creating travel bargains here and abroad. BY KAITLIN PITSKER

**BUDGET-MINDED TRAVELERS** looking to get away in 2020 will find plenty of deals, thanks to new airline routes, increased competition among hotels and airlines, and a strong U.S. dollar.

To get the best fares and rates, you'll want to sign up for fare alerts, compare flight and hotel prices on search sites, and be flexible with

ILLUSTRATION BY IKER AYESTARAN

your travel dates. Not sure where you want to go? We've asked industry experts to weigh in with their top picks of places you can visit for less in 2020.

**Europe at a discount.** In the past year, flights to some European destinations, including Paris, Madrid and Barcelona, have become more affordable thanks to new routes and increased competition among carriers, says Tracy Stewart, content editor at Airfarewatchdog.com. You can find flights to Rome from New York, Boston and San Francisco, for example, for $300 to $350 (all prices are for round-trip fares). Those prices will continue to dip in 2020 as low-cost carrier Norwegian Air Shuttle adds routes, says Stewart. For thinner crowds, consider Sicily, with side trips to Palermo and Noto. These cities are becoming trendy destinations but aren't yet crowded, says Gabe Saglie, senior editor at Travelzoo. Everything from museum tickets to cappuccinos will be more affordable as the dollar's strength continues in 2020, he says.

Another European value that may not be on your radar: Scotland. Historically, the pound sterling has been an expensive currency for U.S. travelers. But Brexit will continue to be a factor in 2020, and the U.S. dollar will be remarkably competitive against the pound sterling, says Saglie. Week-long Scotland packages recently cost about $1,000 per person, including flights, hotels, transfers and meals, according to Travelzoo.

**Timing is everything.** Japan will be one of the most expensive destinations this summer. But as soon as the Olympic Games end in mid August, some great deals will crop up, says Saglie. More than half a dozen new hotels have been built for the 2020 Olympics in Tokyo, and post-games travelers can expect to see prices drop by up to 50% while the weather is still good, he says. Getting there will be easier and less expensive, too, because United Airlines and All Nippon Airways are expanding their routes.

Flights to Hawaii will also be less expensive as Southwest adds routes. Flights from the West Coast, which recently cost about $700, could drop to between $400 and $500, says Saglie. Island hopping in Hawaii will also be more affordable in 2020, he says, with Southwest offering one-way fares between islands for as low as $29. Hawaiian Airlines, which currently dominates the inter-island flight market, will likely reduce most one-way inter-island fares to $50 to $60.

Nature lovers looking for a new destination will find less-expensive flights to Bozeman, Mont., which offers easy access to national and state parks, including Glacier National Park. Until recently, flights to Bozeman were limited and often more expensive than a cross-country jaunt. But new seasonal flights from New York, Philadelphia, Los Angeles and Seattle will reduce rates for East Coast travelers by 10% to 20%, says Saglie.

Yearning for a Caribbean vacation? Consider Curacao. United Airlines has announced new routes to this often-overlooked island, which sits below the hurricane belt and is rarely in the path of storms. The island also has some of the cheapest hotel costs in the Caribbean, with average rates of $125 a night for the winter, according to Oyster.com.

Travel Bargains

## Where to Find the Best Deals

Looking for great values on airfares and hotels? Check out these resources:

→ **Scott's Cheap Flights** (www.scottscheapflights.com) will send out international deals to subscribers for free.

→ **Airfarewatchdog** (www.airfarewatchdog.com) sends out daily e-mails with a long list of fares from airports you choose. The e-mails also flag sales, including from Southwest (normally absent from deal newsletters).

→ **Secret Flying** (www.secretflying.com) provides instant alerts on flight deals that depart from cities across the U.S. to subscribers who download its app.

MAXIMUM IMPACT

# TRACK YOUR DONATED DOLLARS

Most of us give to charity because we want to make the world a better place. But many donors fear that their contributions won't be used efficiently or may even be misused.

ImpactMatters.org, a new charity-rating system, seeks to address those concerns with an online tool that measures the impact of every dollar donated to a particular organization.

For example, a $25 donation to Shared Harvest Foodbank, an Ohio-based charity, will provide a meal to 13 needy people, and $25 donated to Paralyzed Veterans of America will increase benefits claimed by a disabled veteran by $250, according to ImpactMatters' analysis. Charities are given a one- to five-star rating. ImpactMatters bases its ratings on charities that serve the same cause so donors can make an apples-to-apples comparison.

Elijah Goldberg, executive director of ImpactMatters, says its system analyzes a wider range of nonprofits than GiveWell (www.givewell.org), which also measures cost-effectiveness but focuses on international charities.

Currently, ImpactMatters has rated about 1,000 charities, which is just a fraction of the thousands of charities eligible to receive tax-deductible contributions. Some charities that haven't yet been rated receive a "governance report," which Goldberg says is designed to provide donors with basic information and alert them to problems, such as egregious overhead expenses. **SANDRA BLOCK**

INTERVIEW

# SHOULD YOU BANK WITH GOOGLE?

## Tech companies may offer better deals than traditional banks. But there's a trade-off.

*Daniel Latimore is a senior vice president for banking at research and consulting firm Celent.*

**Why are Apple, Google, Facebook and other tech companies interested in offering banking and financial services?** It's not that banking is where the money is, but rather that banking is where the data is. Big tech has grown by monetizing data. By offering a checking account, credit card or other financial product, these companies can gather specific and detailed information about your income, spending, cash flow and other financial habits.

**Are the tech firms really becoming banks?** For now, they are wading into specific parts of financial services and generally partnering with existing financial institutions. For example, Google will soon offer checking accounts in partnership with Citigroup and Stanford Federal Credit Union. Often, the tech company will be the brand that the customer sees while the bank takes on regulatory issues and other behind-the-scenes tasks. In time, some tech companies may move further into financial services but will likely stop short of crossing lines that require them to deal with regulatory complexity and compliance.

**What are the potential benefits for consumers?** Tech companies will likely offer lower fees and higher interest rates than traditional banks. Some may offer cash incentives or other perks to encourage customers to make the switch. Many are also focused on offering a better customer experience by offering apps that are easy to use, making it easier to find the information you need within an app, and figuring out the right way and time to connect with you to be useful but not annoying. As these companies get to know customers better, they'll start giving them personalized offers. For example, if they know how much you're paying on a mortgage, they may infer the rate and offer you a refinance option with a lower rate through a partner.

**What are the trade-offs?** You are giving the tech company your financial data. They'll see how much money you have in your account, what bills you're paying and more—and they'll use that information to try to sell you stuff and market financial products. Customers who are concerned about their privacy may want to use a diverse portfolio of service providers—keeping social accounts in one bucket, banking in another and investments in a third—to avoid giving a single company a full view of their affairs. There are also a lot of boring but important functions that traditional banks do well, such as maintaining branch locations and call centers, that aren't always a strong suit for technology companies.

**Will people make the switch?** Inertia is the most powerful force in consumer finance. Getting people to change unless there's a big shock is tough. And for a significant portion of the population, the brand really matters in financial services. If you want to give the new accounts a try, you might consider opening one as a secondary account. If over time you receive offers that would save you money and you don't mind how your data is being used, you might consider making it your primary account.

KAITLIN PITSKER

PHOTOGRAPH BY ADAM DETOUR

FORD'S MUSTANG MACH-E SUV HAS A DRIVING RANGE OF 300 MILES.

PLUGGING IN

# ELECTRIC CARS CRUISE INTO THE MAINSTREAM

## Sales are rising, but they're still best for commuting and shorter drives.

**ELECTRIC VEHICLES AREN'T** just for environmentally conscious celebrities and high-tech entrepreneurs anymore. More than 1.3 million EVs, including plug-in hybrids, were on the road in the U.S. as of September, according to the Edison Electric Institute. That same month, the EV share of new-car sales hit 2.6%, a high for 2019. Ford recently made a splash with its upcoming Mustang Mach-E all-electric SUV, the fifth pure EV SUV on the market.

To fans, all-electric vehicles such as the Tesla models, Chevrolet Bolt and Nissan Leaf provide smooth and noiseless driving, low maintenance, quick acceleration and a premium feel. But there are hurdles to going electric. These cars are more expensive to buy or lease than their gas-powered counterparts. Electric vehicles and plug-in hybrids (which have a gas engine as well as a battery) purchased in 2010 or later may be eligible for a federal income tax credit of up to $7,500, but this credit starts phasing out once a manufacturer has sold 200,000 EVs—which is the case for Cadillac, Chevrolet and Tesla.

Some states offer their own incentives, which you can find by searching online. Ask your local utility company about any rebates or other perks it offers. Or consider buying a used car, if you live in a state such as California where off-lease EVs are plentiful in the used car market. "You won't get the latest tech or longest ranges, but you can pick up certain models for less than $10,000," says Dan Edmunds, director of vehicle evaluation at car-information site Edmunds.com.

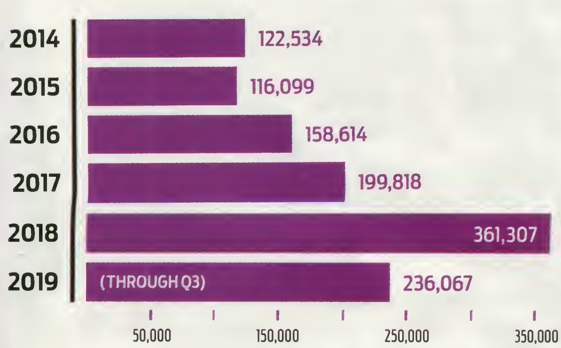
Even if the price is right, EVs are most practical for drivers who can recharge their cars in their home garage rather than rely on public charging stations. Edmunds, whose family is on their third EV, says owning an electric vehicle is easier than many people think. "People plug in their smartphones more often during the day than they'd have to plug in their car."

Electric-only cars also work best for owners who drive reasonably short distances around town or have another car for long distances. A number of EVs offer more than 200 miles of driving range, with pricier models inching toward 400 miles. But charging stations are still not as convenient as gas stations, and it may take several hours to charge the vehicle.

**MIRIAM CROSS**

### The EV Market Powers Up

Sales of electric vehicles in the U.S. have been rising steadily.




Source: Edison Electric Institute

COURTESY FORD

SCAMWATCH

# LOOK OUT FOR THESE RACKETS

**Phony CDs.** Low interest rates have decimated returns from certificates of deposit—the average rate for a one-year CD is just 0.74%—creating opportunities for hucksters claiming to offer a better deal. The bogus CDs offer interest rates that are much higher than average, with no early-withdrawal penalties, and require high minimum deposits—often $200,000 or more. Steer clear of any website that asks you to send money via wire transfer to an account outside the U.S., or to one with a different name than the financial institution claiming to sell the CD.

**Everything must go!** If your favorite store is going out of business, you may think you'll get a great deal on its inventory. But many retailers sell their merchandise to third-party liquidators, which may charge more for some items than they cost before the sale, says the Federal Trade Commission. Use your smartphone to compare prices online before you buy.


**Binary options.** Binary options allow you to make a bet on the direction of a stock, currency or other asset. Even when they're legitimate, you can lose a lot of money. But fraudulent online platforms promoting binary options often take the money and run. A consistent theme of these platforms is they almost always show investors making a big profit, according to the Better Business Bureau. But when investors try to claim their gains, they're told they need to deposit more funds, or the scammers vanish. If you are interested in trading options, check with the Commodity Futures Trading Commission (866-366-2382) to be sure the trading platform is a "designated" market, as well as with the SEC (800-732-0330) to see if the offering is registered. **SANDRA BLOCK**

# CALENDAR 02/2020

### MONDAY, FEBRUARY 3

Flu infection in the U.S. typically peaks between December and February, according to the Centers for Disease Control and Prevention, so if you haven't had your annual flu shot, get it now. Take the opportunity to make sure you're up-to-date on other vaccinations, such as tetanus and diphtheria (every 10 years) and shingles (adults over 50). Most insurance plans are required to cover vaccinations, so you shouldn't have to pay out of pocket to protect your health.

### ▲ FRIDAY, FEBRUARY 14

It's Valentine's Day and the beginning of the weekend, so restaurants will probably be packed. Here's an idea: Wait until another night to dine out and have a "money date" instead to ensure that you and your sweetheart are making the most of your combined incomes. To get started, turn to page 38.

### MONDAY, FEBRUARY 17

Presidents' Day. Look for big sales on winter clothing, electronics and home goods. Last year, some big-box retailers slashed prices on bedding by up to 50% during the holiday weekend.

### FRIDAY, FEBRUARY 21

Tax Day is less than two months away, and by now you should have received your 1099-DIVs, 1099-MISCs and other tax statements from your financial institutions, along with your W-2. If you do your own taxes, this is a good time to start checking out tax software. Taxpayers with 2019 income of less than $69,000 can prepare and e-file their taxes free at IRS Free File. Find it at www.irs.gov.

### DEAL OF THE MONTH

*Check out your grocery store's* **fish and meat department on February 15 for potential discounts on steak and lobster tails. Many stores stock up on these items for Valentine's Day, according to DealNews.com.**

ISTOCKPHOTO.COM (2)

# BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY

## NEW DATA BREACHES

Credit bureau Experian's five data-breach predictions for 2020 include:

**1. Smishing.** That's "phishing" using SMS text messages. Cybercriminals will increasingly prey on Americans who participate in social media groups to provide financial support to social causes or political candidates. Fraudulent texts will seek bank account details or other sensitive data.

**2. Drone hacking.** Drones may be armed with mobile hacking devices to steal sensitive information from consumers and businesses using free, unsecured public Wi-Fi systems.

**3. Deep-fake tech.** Artificial intelligence technology can blur the lines of what is real and what isn't by manipulating the appearance and voice of corporate executives and government leaders.

**4. Hacktivism.** Hackers may target sensitive data of controversial companies, such as cannabis retailers and cryptocurrency entities, as a form of protest.

**5. Mobile payment breaches.** Cybercriminals will steal payment data from mobile point-of-sale platforms used to process transactions. Large venues, such as concerts and major sporting events, are especially vulnerable.

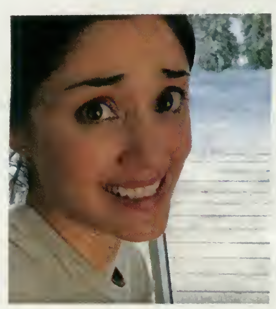
**$1.7 MILLION**

That's how much Americans believe they need for retirement, according to a survey from Charles Schwab, which looked at 1,000 participants in 401(k) plans nationwide. For strategies to determine how much you need, see page 44.

## PELOTON HITS A POTHOLE

Shares of stationary bike maker Peloton sank by 9% over the course of a day in early December. The skid coincided with the release of the company's holiday commercial and subsequent backlash on social media. In the ad, a woman receives a Peloton bike as a gift from her husband and films herself exercising over the course of a year. Critics were quick to mock the ad as both sexist and elitist.

Shares hit another speed bump a week later after a negative report from a short seller, but the share price was still north of the initial public offering price last September. Raymond James analyst Justin Patterson says the flap over the ad was unlikely to dent holiday sales. He's bullish on the stock, assigning it an "outperform" rating.



ISTOCKPHOTO.COM (2); COURTESY PELOTON

## LIVE LONGER AND PROSPER

The IRS has proposed new life expectancy tables to calculate RMDs, reports the *Kiplinger Retirement Report*. The new tables take into account today's longer life expectancies. The current tables stop at age 115+, but the new ones run an extra five years, to 120+.

What do the new tables mean in practice? When calculating RMDs under the proposed rules, the higher life expectancy factors would mean a retirement account owner could take out a smaller amount each year, leaving more money to grow tax-deferred in the account.

For example, for a retirement account owner who is age 71, the current life expectancy factor is 26.5, whereas the proposed rules would set that factor at 28.2. If that 71-year-old has a $1 million IRA balance, he would be required to take out nearly $2,300 less.

The proposed regulations must go through a few more regulatory steps before they can be finalized. If they stay on track, the new rules would be used to calculate RMDs beginning in 2021.


## CITIES WHERE YOU'LL SIT IN TRAFFIC THE LONGEST

Clever, a real estate company, ranked work commutes for the 50 largest metro areas in the U.S. The annual cost includes fuel, car maintenance and opportunity cost of time spent commuting. (The five best metro areas for commuting are New Orleans, Buffalo, Milwaukee, Oklahoma City and Miami.)

| CITY | TIME TO WORK (min.) | ANNUAL COST |
|---|---|---|
| WASHINGTON, D.C. | 37 | $12,016 |
| SAN JOSE | 31 | 11,853 |
| SAN FRANCISCO | 32 | 11,377 |
| NEW YORK CITY | 35 | 10,569 |
| SEATTLE | 31 | 10,132 |

# 200,000

The number of Fidelity 401(k) plans with a balance of $1 million or more—a record high—as of the third quarter of 2019.

## TD AMERISCHWAB?

A month after Charles Schwab kicked off a zero-commission price war, the discount broker announced plans to acquire rival TD Ameritrade in a deal worth $26 billion. The deal makes strategic sense, and stocks of both companies jumped on the news, while shares of competitor E*Trade sank. The combined entity would hold about $5 trillion of customer assets and nearly 25 million accounts.

The marriage would create a technological powerhouse, which could "deliver a more advanced, flexible solution to a wide range of customers," according to Deutsche Bank analysts. But "for small and midsize financial firms, the pressure will be enormous to provide adequate service and value," says Bankrate's Mark Hamrick. Those firms could lose market share, "including in smaller communities, where more personal brick-and-mortar financial services are harder to come by," he adds.

The deal could face some antitrust hurdles. Even if it goes through, integration of the two firms could be long and complicated, with the potential for customers to defect during the process. On that front, investors should be on the lookout for special offers from rival brokerages.

From *The Kiplinger Letter*

## AMERICANS ARE MOVING LESS

A mere 9.8% of Americans changed residence this year, the lowest total since the Census Bureau started keeping track of annual migration statistics seven decades ago. Why? Young people aren't moving as often as in the past. Before the Great Recession, in 2006, 29% of those age 20 to 24 reported moving in the most recent year. This year, only 20% did. Millennials, historically the most mobile generation, face greater barriers to mobility, such as higher housing costs. Even renters are moving at significantly lower rates.

# Which Robo Is Right for You?

We sift through the pros and cons of the growing number of low-cost digital advisers.

**BY NELLIE S. HUANG**

**ROBO ADVISERS,** those automated investment advice services offered by banks, brokerages and other financial firms, have proliferated to the point that choosing one can be overwhelming. All robos promise low-cost, computer-driven investment management geared to your goals. But although they share similar characteristics, they are not alike. Some digital investment services are better for investors who are just starting out. A few are suitable only for the most conservative investors. Others are geared only for investors saving in retirement plans. // Robo advisers (a label the industry hates, by the way) now number in the dozens


ILLUSTRATIONS BY OTTO STEININGER

and manage billions of dollars in assets. Betterment, a pioneer, has amassed $20 billion in assets under management since its robo offering opened in 2010. Schwab's Intelligent Portfolios launched in March 2015 and now has more than $43 billion in assets.

The services bring investment advice, once the purview of the wealthy, to the masses. "Robos have democratized investing advice," says Lule Demmissie, president of Ally Invest. No longer is an hours-long sit-down with an actual flesh-and-blood adviser required. "I'd have better luck getting someone in their twenties or thirties to go in for a cavity filling," says Chris Costello, cofounder and chief executive of Blooom (yes, that's spelled correctly), an automated retirement savings adviser.

Robo advice is ready when and where you want it. Just grab your smartphone, tablet or laptop and click your way through a few questions about your goals, your tolerance for risk and your time horizon. In minutes, the algorithm kicks out a recommendation for a diversified portfolio designed by professional investors that's appropriate for you, typically filled with exchange-traded funds. The robo will monitor the portfolio daily, automatically rebalance your holdings when required and shift the stock-bond mix over time as you near your savings goal. "I am supremely confident that the digital adviser will become the dominant type of investment advice service," says Blooom's Costello.

Before you decide to move your money or roll over an IRA to a robo firm, there are some caveats. For starters, opening an account at these outfits typically requires that you sell your existing holdings, move your money and buy certain funds. With taxable accounts, be sure to consider any potential tax consequences. These are advisory accounts, not brokerage accounts. That means, in most cases, you must stick with the recommended portfolio—although most firms will allow you to move up or down a notch on the risk scale between recommended portfolios. You can invest in a portfolio with a 90% stock position instead of the robo's prescribed 80% stake, for example. But you can't go rogue and decide to put 50% in cash or 100% in stocks.

There are fees to consider, too. At most shops you'll pay the expense ratios of your underlying holdings. But these fees tend to be low—less than 0.10% per year—because most of the portfolios hold ETFs. All in all, you'll pay far less than 1% a year, the going rate for a typical money manager. But be aware, too, that some firms may charge you for added services, such as tax-loss harvesting, a tax strategy that offsets capital gains with losses.

Robo offerings are still evolving. Many firms have added a "hybrid" configuration to their offerings that combines the algorithmic portfolio management service with access to a human adviser or certified financial planner. Some firms have dropped their account minimums. E*Trade dropped its minimum last year to $500 from $5,000. (The table on the facing page gives vital statistics on 14 robos, including fees, minimums and the types of investments they use.) And many, including Betterment, E*Trade, Merrill Edge and Personal Capital, now offer socially responsible portfolios that focus on environmental, social and governance criteria. Says Demmissie, "We're innovating to meet our customer's needs. What works for a competitor may not work for my customer."

That's good news. It means there is, or will be, a robo for almost every investor. Below, we've sorted through the offerings to help you find the right robo for you.

## For Investors Just Starting Out

At these firms, you don't need to have a lot of money to get going. At Acorns, for example, just link your credit card or debit card to an **Acorns Core** account, and any purchases you make will be rounded up to the next dollar. The spare change automatically moves to your Core account and is invested in a portfolio of ETFs that is appropriate for you. "It ties the hard task of saving to everyday purchases," says Acorns chief executive Noah Kerner. And Acorns is cheap at $1 a month for a taxable account, or $2 a month for an IRA account called Acorns Later.

There's no management fee and no minimum to open an account at **Axos Invest** (formerly WiseBanyan) or **SoFi Invest**, which makes them appealing to investors with small balances. **Betterment Digital** and **Fidelity Go** don't have

Nuts and Bolts

# How the Robo Advisers Stack Up

| Robo | Minimum to invest | Annual fee* | Type of holdings | Average portfolio exp. ratio | Comment |
|---|---|---|---|---|---|
| **Acorns Core** | $0 | $12/year‡ | ETFs | 0.11%† | Easy entry to investing for people who need incentive to save. |
| **Ally Invest Managed Portfolios** | $100 | None | ETFs | 0.07% | Zero fee, but the conservative portfolios are best for wary investors. |
| **Axos Invest** | $0 | None | ETFs | 0.10% | No minimum, no management fee and a good three-year track record. |
| **Betterment Digital** | $0 | 0.25% | ETFs | 0.09% | A robo pioneer with some extras, including custom guidance on buying a home or saving for college. |
| **Blooom** | N/A | Starts at $40/year | Mutual funds | ** | Solid help for 401(k) investors, but its low-cost focus means good active funds may get overlooked. |
| **E*Trade Core Portfolios** | $500 | 0.30% | ETFs | 0.07% | A robust lineup of portfolios includes outside-the-box ETFs and socially conscious strategies. |
| **Fidelity Go** | $0 | 0.35% | Mutual funds | 0.00% | Zero-fee funds are a plus; strong three-year track record. |
| **Merrill Guided Investing** | $5,000 | 0.45% | ETFs | 0.08% | Worth a look if you bank at Bank of America, but its fee is higher than others. |
| **Personal Capital** | $100,000 | 0.89% for first $1 million | Stocks, ETFs | 0.08% | High minimum is a barrier, but the website's tools are unmatched. |
| **Schwab Intelligent Portfolios** | $5,000 | None | ETFs | 0.14% | Zero fees, but returns could be pinched by high cash balances in your portfolio. |
| **SoFi Invest** | $0 | None | ETFs | 0.18%† | Zero minimum and fee, and access to solid cash management account. |
| **T. Rowe Price ActivePlus Portfolios** | $50,000 | None | Active mutual funds | 0.67% | Access to some outstanding T. Rowe Price fund managers, but only for retirement accounts. |
| **Vanguard Personal Advisor Services** | $50,000 | 0.30% for first $5 million | Index funds and ETFs^ | 0.08% | Vanguard funds and ETFs ensure low costs, but the minimum is high. |
| **Wealthfront** | $500 | 0.25% | ETFs | 0.09% | Banking services are coming, which will round out this fintech company's services. |

*Fee is based on percentage of assets unless otherwise noted. †Median expense ratio. **Depends on the underlying holdings. ‡For a taxable account. An IRA account costs $24 per year. ^Clients can hold non-Vanguard investments in some cases.

a minimum to open an account, either. But you will pay an annual management fee based on the amount of money you have in your account. Betterment Digital charges 0.25% a year; Fidelity, 0.35%.

## Retired Investors Making Withdrawals

Most robos are focused on accumulating wealth, but some help retired investors sort out their required minimum distributions from tax-advantaged accounts. **Personal Capital**, which calls for a $100,000 minimum to open an account, will set up paycheck-like withdrawals from your IRA to your bank account and withhold federal and state income taxes, too. Personal Capital gets extra credit for its Smart Withdrawal tool. It allows customers to explore how different withdrawals from tax-advantaged and taxable accounts might affect their assets over time. **Betterment's** retired clients can set up regular distributions as well, but only federal income tax is withheld (you're on your own for state tax withholding). Finally, **Merrill Edge's Guided Investing** and **T. Rowe Price's ActivePlus Portfolios** can arrange one-time distributions from an IRA. Both firms say a feature that allows regular automated withdrawals is coming.

## Savers Who Want 401(k) Help

**Blooom**, quirky spelling and all, can take the reins of your 401(k) account and manage it for you. It connects to your employer-sponsored retirement account—403(b)s and federal Thrift Savings Plans are eligible, too—and builds a well-diversified portfolio of the lowest-cost funds available in your plan. Over time, it monitors, rebalances and shifts your holdings to an appropriate mix of stocks and bonds as you near retirement.

Of course, Blooom's algorithm focuses on the lowest-cost funds, which means it may overlook some standout actively managed funds your plan might offer (see "The Best Funds for Your 401(k)," Dec.). Still, says Costello, fees are "the one thing you can control when it comes your investments." Blooom plans to unveil a tiered pricing system that depends on the level of services you require, but 401(k) accounts with less than $10,000 will pay just $40 a year. Note that a good, low-cost target-date fund already in your plan might do the job as well.

## Conservative Investors

We answered, where possible, the online questionnaire at more than a dozen firms, responding as a 50-something investor with a moderate risk tolerance, 12 years to go before retirement and $10,000 to invest. Many programs suggested a 60% stock and 40% bond portfolio. **Ally Invest's Managed Portfolios** recommended a 56% stake in stocks, 14% in bonds and a hefty 30% in cash.

A static 30% cash position is standard in Ally's zero-fee robo portfolios. (Investors who want to be fully invested can opt in to a product that charges 0.30% of assets per year.) The decision to stash so much in cash came after the firm conducted a survey of its Managed Portfolio customers, says Ally Invest's Demmissie, and learned that the average respondent held a 28% cash position. "An overwhelming number of our customers wanted a cash buffer," she says. The cash helps people to stay invested and may deter them from selling low whenever the stock market turns down, she adds. But this cash-heavy portfolio is best for only the most nervous of investors who are worried about the market. Bear in mind that investors with such conservatively positioned portfolios may need to compensate by saving more in order to reach their goals.

If you're already retired, some firms offer portfolios geared toward capital preservation and income. **Betterment** offers four BlackRock Income portfolios that are invested 100% in bonds, tiered by risk level. They're filled with bond ETFs that invest in U.S. Treasuries, mortgage-backed securities, and investment-grade and high-yield corporate debt, as well as emerging-markets bonds. The income portfolios are designed to preserve capital and provide steady income. The most conservative fund tilts toward high-quality short-term bonds and currently yields 2.05%. The most aggressive one, which is heavily invested in high-yield and floating-rate corporate bonds, yields 4.00%.

## Investors With Multiple Goals

Juggling life's big-ticket purchases, such as a home or college, with the biggest goal—retirement—is difficult. The sign-up process at **Merrill Guided Investing** allows you to work toward multiple goals with different time horizons. You'll have to set up different accounts to do so, as each goal will be assigned a separate portfolio, depending on how close you are to your goal and other factors. But you'll be able to see all of your accounts on a single "dashboard" at Merrill Edge.

## Investors Who Want to Talk to an Actual Person

If robo advisers are a good first step for investors into the world of investment advice, then a hybrid robo adviser, which combines automated investing advice with a human touch, is a solid second one.

These services typically start as a robo, with a digital accounting of your goals and investments. A consultation via phone or computer with an adviser follows. He or she can craft a more customized strategy—which could include individual stocks, bonds and mutual funds as well as ETFs—and answer questions about other financial issues, such as budgeting or when to claim Social Security.

Five years ago, **Vanguard's Personal Advisor Services** and **Personal Capital** were among the only hybrid advisers. (Both firms offer only hybrid services at the moment, though Vanguard is getting ready to launch its own digital-only advisory service.) Today, many financial firms that offered digital-only services at first, including **Betterment**, **Fidelity**, **Merrill Edge** and **Schwab**, now have hybrid robo services that include access to a licensed broker or a certified financial planner.

Expect to fork over more to open such an account. Fidelity Go's digital-only service has no minimum, for instance, but you'll need $25,000 to open an account with its Personalized Planning & Advice service. At Vanguard's Personal Advisor Services, you need $50,000 to start, and the annual fee is 0.30% of assets (the fee drops for balances above $5 million). Personal Capital's $100,000 minimum is even higher, and its 0.89% fee is a bigger annual nut, too (the fee tiers decrease for balances over $1 million). But the account comes with robust technical tools and eye-catching graphics that allow you to dissect and view your portfolio by asset class or holding, among other things.

**By the Numbers**

### A Robo Portfolio Report Card

Thanks to Backend Benchmarking, which tracks the robo adviser industry by opening accounts with real money at each firm, we can see how some robo advisers have performed over the past three years.

The Martinsville, N.J., advisory firm, in its quarterly *Robo Report*, recently reported that for the three years ending September 30, 2019, **Fidelity Go** and **Axos Invest** had the best-performing moderate-risk portfolios.

For this ranking, Backend Benchmarking tracked the taxable portfolio at each firm that is closest to a diversified mix of 60% stocks and 40% bonds, both U.S. and international. Even so, these portfolios are not exactly the same. Some have as little as 60% devoted to stocks, and some have as much as 70%. In addition, the allocation to U.S. stocks versus international stocks varies from firm to firm, as does the fixed-income allocation to U.S. and international bonds. We created a composite benchmark of the MSCI All-Country World Index All Cap (at 60%) and the Bloomberg Barclays Global Aggregate Bond index (at 40%) to use as a general reference point.

| FIRM | 3-year annualized return |
|---|---|
| Acorns | 6.01% |
| Axos Invest | 7.61 |
| Betterment | 6.66 |
| E*Trade | 7.00 |
| Fidelity Go | 7.61 |
| Personal Capital | 6.11 |
| Schwab | 6.23 |
| Vanguard | 7.04 |
| Wealthfront | 6.98 |
| COMPOSITE BENCHMARK* | **6.23%** |

As of September 30, 2019. *Composite benchmark return consists of 60% MSCI ACWI All Cap index and 40% Bloomberg Barclays Global Aggregate Bond index. SOURCE: Backend Benchmarking

## Investors Who Want to Bank and Invest All in One Place

Two robos are waging a small war over the rest of your cash. **Wealthfront** and **Betterment** recently offered high-yield cash accounts to customers. Wealthfront's pays 1.82%; Betterment's pays 1.85%. Wealthfront plans to add bill paying and direct deposit features, as well as ATM debit cards. "This is the stepping-stone to the financial nirvana we're trying to build," says Wealthfront spokesperson Kate Wauck. For its part, Betterment is now testing a no-fee checking account and debit card that it plans to roll out in early 2020.

Meanwhile, **SoFi Invest** already offers ATM withdrawals, a debit card, check-writing and a 1.6% yield on a cash management account, called SoFi Money, that is connected to its robo product. Customers' money "is all in one account in which they can save and spend," says Brian Walsh, manager of financial planning at SoFi.

Customers at **Merrill Guided Investing** get a discount, starting at 0.05 percentage point, on the 0.45% annual management fee if they bank at the firm's parent company, Bank of America, and have a combined balance between both firms of at least $20,000. The bigger the combined balance, the bigger the discount. ■

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**STREET SMART** | James K. Glassman

# Indulge in Luxury Stocks

Not long ago, a young American woman I know well was on vacation in Paris and decided she would splurge on her favorite luxury brand. She went to the Hermès store on the Rue du Faubourg Saint-Honoré and bought a blue-and-gold blouse and a black skirt. Then, for the big purchase, she went back to the ground floor to buy a handbag. Hermès bags range from about $4,000 into the six figures. A salesperson told the woman she would have to send a text asking for a reservation the next day. The woman dutifully complied. Six hours later, a text (in French) came in response: "Because of a great number of requests, we cannot honor yours." Hermès wouldn't sell her a handbag!

Can there possibly be a better business than one in which demand so exceeds supply? **HERMÈS INTERNATIONAL** (SYMBOL HESAY, $75) has found the formula. A harness and saddle maker founded in 1837, the company now sells all sorts of leather goods, as well as dresses, scarves, jewelry, furniture and more, in 310 stores around the world. With nearly 15,000 employees (9,000 of them in France), Hermès also manufactures goods for other luxury brands, including John Lobb shoes and Puiforcat tableware. The Dumas family—the fifth-richest in the world, with a net worth of $49 billion—controls Hermès, but the good news is that you can own stock yourself through American depositary receipts, which trade like any other shares on U.S. exchanges. (Prices, returns and other data are as of November 30.)

Business is booming. For the six months ending June 30, 2019, both sales and net profits rose 15% compared with the same period a year earlier. Hermès has made a big bet on Asia, where 41% of its stores are located (compared with just 13% in North America), and the wager is paying off. Unfortunately, the success is no secret. The stock has roughly doubled in the past three-and-a-half years, and it's not cheap. But there are few other sectors that can offer this kind of growth.

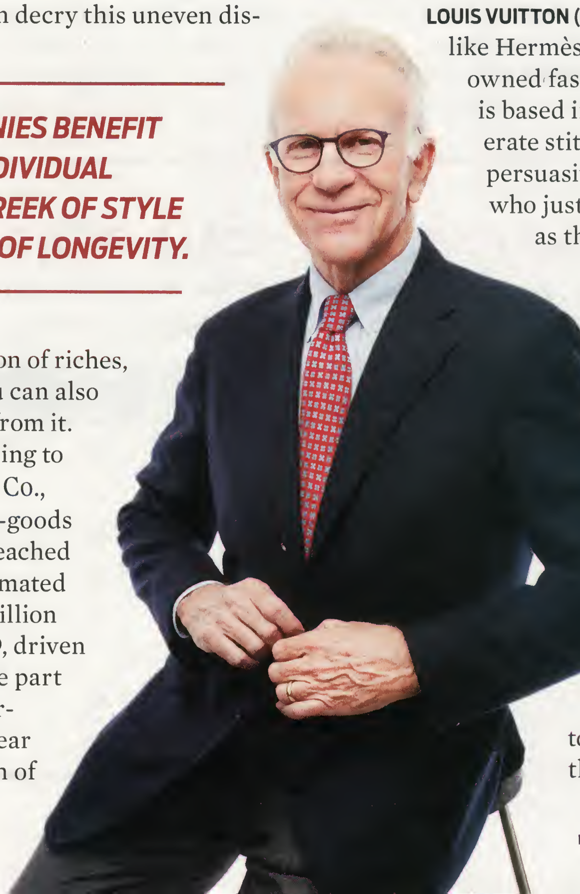
**When money is no object.** Luxury-goods companies are riding a wave. According to a survey by Credit Suisse, global millionaires (in U.S.-dollar terms) now number 47 million, accounting for 44% of the world's wealth but less than 0.1% of the world's population. You can decry this uneven distribution of riches, but you can also profit from it. According to Bain & Co., luxury-goods sales reached an estimated $300 billion in 2019, driven in large part by year-over-year growth of 18% to 20% in mainland China. Despite a slowdown in its economic growth rate, China has overtaken the U.S. as the country with the most rich people.

Luxury-goods companies benefit from the power of individual brands—names that reek of style and quality but also of longevity. Investors often speak of "moats," or protection against cutthroat competition that leads to stolen customers and lower prices. Patents provide moats, but powerful brand names are just as good—often better, in fact, because they persist. No one but Hermès can make a Hermès handbag, just as Rolex is renowned for its posh timepieces. Sure, they can be copied illegally, but other rich people—the audience that retail buyers most want to impress—know the real thing.

The largest of the luxury-goods firms is a marvel: **LVMH MOËT HENNESSY LOUIS VUITTON** (LVMUY, $89), which, like Hermès and the privately owned fashion giant Chanel, is based in Paris. A conglomerate stitched together by the persuasive Bernard Arnault, who just surpassed Bill Gates as the world's second-richest person, LVMH has a market capitalization (shares outstanding times stock price) of $220 billion, nearly three times that of Hermès.

LVMH reached a deal in November to purchase one of the few luxury-goods

***LUXURY-GOODS COMPANIES BENEFIT FROM THE POWER OF INDIVIDUAL BRANDS—NAMES THAT REEK OF STYLE AND QUALITY BUT ALSO OF LONGEVITY.***



POON WATCHARA-AMPHAIWAN

firms not based in Europe: Tiffany (TIF), the 183-year-old jeweler. With the acquisition ($16 billion in cash), Tiffany joins a portfolio of 75 LVMH companies, which, in addition to leather designer Vuitton, champagne maker Moët & Chandon and cognac king Hennessy, includes jewelers Bulgari and Chaumet; fashion houses Christian Dior, Fendi, Givenchy and Loro Piana; plus such odds and ends as the upscale hotel chain Belmond, the business newspaper *Les Echos* and the famous bubbly Dom Pérignon. LVMH shares have risen 59% in the past 12 months, but the stock's valuation is not as high-end as you might think: a price-earnings ratio of 24.5, based on consensus profit projections for the year ahead.

When LVMH targets acquisitions, how does it convince the shareholders—many of whom are founding-family members—to sell? First, it offers liquidity, allowing great-grandchildren to cash out, plus economies of scale and management know-how. For example, analysts say that Bulgari has more than doubled sales since being acquired by the conglomerate in 2011.

Smaller versions of LVMH are thriving, too. **KERING (PPRUY, $60)**, also based in Paris, owns such high-fashion brands as Gucci, Bottega Veneta, Yves Saint Laurent, Alexander McQueen and Brioni (whose suits are favored by President Trump). For the nine months ending September 30, Kering revenues rose 17%. The stock trades at a P/E of just under 20 (below that of LVMH) and yields 2% (almost double LVMH's yield). **COMPAGNIE FINANCIÈRE RICHEMONT (CFRUY, $8)**, based in Bellevue, Switzerland, offers good value, trading well below its 2014 high. Richemont leans toward jewelry and watches, with brands such as Cartier, Van Cleef & Arpels, Piaget, dunhill and Chloé.

**IF THE GLOBAL ECONOMY SLOWS, THESE FIRMS COULD SUFFER AND THEIR SHARE PRICES MIGHT FALL. IN THAT CASE, BUY MORE.**

**More luxe than you think.** Don't be deceived by the name of the **SWATCH GROUP (SWGAY, $14)**. It's another Swiss collector of luxury brands, including Harry Winston, Omega and Jacquet-Droz, a 261-year-old Swiss watchmaker whose timepieces run well into the tens of thousands of dollars. The stock has fallen 40% since mid 2018 on weak sales, but the problem appears to be temporary, and the stock trades at a low valuation with nearly a 3% yield.

Another smaller, multi-luxury-brand stock is London-based **CAPRI HOLDINGS (CPRI, $37)**, with a market cap of almost $6 billion. It has three holdings, all strong names: Jimmy Choo, Michael Kors and Versace. But growth lately has disappointed, and the stock took a huge tumble, losing about 65% of its value in the 12-month period through the end of August 2019. It has come back a bit since and trades at a P/E of just 7, based on consensus earnings forecasts for the 12 months ahead.

Want a U.S. company? **TAPESTRY (TPR, $27)** is based in trendy Hudson Yards in New York. Its brands—Kate Spade, Coach and Stuart Weitzman—are high-quality but a notch below luxury. Still, the stock, like Capri, may be too attractive to ignore. Shares are down by about half since April 2018 and trade at a P/E of just 10, based on consensus forecasts for the coming 12 months, with a yield of more than 5%.

Other than Hermès, most great individual luxury-goods firms have either been acquired or—like Chanel, Rolex, jeweler Graff and the world's best menswear designer, the Italian firm Kiton—are private.

There is no need for a luxury-goods mutual fund. Just buy LVMH, Kering or Richemont—or all three—and strongly consider the individual companies and smaller multi-firm stocks as well. If the global economy slows, these companies could suffer and their share prices might fall. In that case, buy more. Developing a new luxury brand is an expensive and time-consuming venture. But you can become a partner in the established ones. ■

Haute Stocks

## A SHOPPING BAG OF UPSCALE PICKS

Luxury-goods sales are soaring, driven in part by growth in China. Many of these firms are headquartered abroad, but their stocks trade here as American depositary receipts.

| Company | Symbol | Price | Market value (billions) | Price-to-earnings ratio* | Yield |
|---|---|---|---|---|---|
| Capri Holdings | CPRI | $37 | $5.5 | 7 | — |
| Compagnie Financière Richemont | CFRUY | 8 | 43.1 | 22 | 2.7% |
| Hermès International | HESAY | 75 | 76.4 | 42 | 0.9 |
| Kering | PPRUY | 60 | 74.5 | 19 | 2.0 |
| LVMH Moët Hennessy Louis Vuitton | LVMUY | 89 | 219.9 | 25 | 1.1 |
| Swatch Group | SWGAY | 14 | 13.9 | 15 | 2.9 |
| Tapestry | TPR | 27 | 7.1 | 10 | 5.4 |

As of November 30. *Based on estimated earnings for the year ahead. SOURCE: Morningstar Inc.

JAMES K. GLASSMAN CHAIRS GLASSMAN ADVISORY, A PUBLIC-AFFAIRS CONSULTING FIRM. HE DOES NOT WRITE ABOUT HIS CLIENTS. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE*. HE OWNS NONE OF THE STOCKS MENTIONED IN THIS COLUMN. CONTACT HIM AT JAMES_GLASSMAN@KIPLINGER.COM.

MUTUAL FUNDS

# 5 MARVELOUS MID-CAP FUNDS

Midsize companies offer investors a winning combination of maturity and growth potential. **BY RYAN ERMEY**

**IN THEORY, MIDSIZE-COMPANY STOCKS** operate in a sweet spot for investors. No longer struggling to get out of the gates, these financially mature firms, led by experienced executives, should come with more stability than small companies. They should also offer greater potential for growth than mega-size firms, whose shares have market capitalizations (stock price multiplied by shares outstanding) that run into the hundreds of billions.

In practice, the theory holds true over longer periods of time. Over the past 20 years, constituents of the Russell Midcap index, which currently sport market caps between $2 billion and $35 billion, have boosted earnings per share at a faster rate, on average, than their large- and small-cap counterparts. During the same period, mid caps have been about 14% more volatile than stocks in the large-cap Standard & Poor's 500-stock index and 15% less volatile than the small-cap Russell 2000 index. And in just about any time frame you choose—whether it's 10, 15, 20 or 30 years—mid-cap stocks have outperformed both their smaller and larger counterparts.

As of June 2019, mid-cap stocks represented 26% of the U.S. stock market, but only 11% of assets in U.S. mutual funds, according to asset manager Carillon Tower Advisers. If you're considering upping your stake in medium-size firms, consider the following funds, which focus mostly on mid caps. All have able managers, impressive long-term track records and are open to new investors. Returns and other data are through November 30.

**1 Baron Asset** Nearly every mutual fund manager claims to invest for the long term, but few take this principle as seriously as Baron Asset fund manager Andrew Peck. His fund's 9.9% turnover ratio implies that stocks tend to remain in the portfolio for more than 10 years, on average. The average fund investing in fast-growing midsize firms tends to jettison a stock before the second anniversary of its purchase.

For consideration in the portfolio, a firm must sport an excellent management team, an established competitive advantage over peers and a long runway for growth. Businesses that meet the latter requirement typically offer a product or service that addresses a large and growing market and aren't sensitive to cyclical swings in the economy or commodity prices, says Peck. The top bet in the portfolio is Idexx Laboratories (IDXX), a leading maker of diagnostic tools used by veterinarians. Peck says the firm dominates a market in which he sees sales growing at a rate in the high-single-digit percentages over the next half-decade, thanks to increased demand for veterinary services and growth in


pet ownership worldwide. Peck likes the firm's recurring revenue model, under which it sells equipment to vets and then continues to sell refills for the machines' disposable components.

Peck likes to see a stock double in five years (the equivalent of a 15% annualized return). Lately, the portfolio has met expectations and then some, returning an annualized 19.8% over the past three years, compared with a 17% return for the Russell Midcap Growth index. The fund isn't cheap. Its 1.30% expense ratio is well above the 1.02% levied by its average peer. But for investors willing to pay, the fund is a consistent performer, landing in the top half of its peer group in each of the past nine calendar years.

**2** **Fidelity Mid-Cap Stock** Lead manager John Roth (who also manages the excellent Fidelity New Millennium fund) and comanager Nicky Stafford share two fundamental views: that a company's stock price is determined by investors' expectations for the firm's future earnings power, and that investors are often wrong. This attitude gives a contrarian bent to Fidelity Mid-Cap Stock, which invests in stocks with growth and value characteristics and with market caps between $1 billion and $10 billion. The managers hunt for emerging, fast-rising stocks with potential for growth that the market underestimates, or for steadier stocks whose growth is more sustainable than most investors think. But they also buy cheap, beaten-down stocks with an identifiable catalyst to get them back on track.

Over the past several years, as the fastest-growing stocks have become overvalued, the fund has favored steadily growing businesses and shrunk its allocation to hyper growers to less than 10%, says Roth. An exception is Peloton Interactive (PTON), which the fund bought before it went public in September, and still owns. Roth says the stationary bike maker has potentially disrupted its stodgy industry, marrying home exercise with technology and media, and has a chance to expand the market for exercise equipment as it rolls out new products.

More recently, as investors have bid up steady growers in the face of market uncertainty, the managers have boosted holdings in economy-sensitive firms such as energy companies and homebuilders. Among such holdings, Roth likes Hess (HES), which he says excels at finding profitable offshore drilling sites, and homebuilder NVR (NVR), whose management team Roth lauds for expertly allocating capital.

Going against the grain can ding short-term results. But over the long term, the managers have proved themselves adept and nimble stock pickers. Since Roth began managing the fund in early 2011, Mid-Cap Stock has returned an annualized 10.6%, slightly better than its benchmark and 1.9 percentage points better than the average mid-cap blend fund.

**3** **Janus Henderson Mid Cap Value** You could say the strategy behind this fund is risk-conscious, though risk-obsessed might be more apt. Managers Justin Tugman and Kevin Preloger start by hunting for high-quality stocks, avoiding firms with high levels of debt and seeking those with competitive advantages over peers and high returns on invested capital (a measure of profitability). The pair are also value investors, favoring stocks that trade inexpensively against measures such as earnings and free cash flow (cash profits left over after capital outlays) relative to other companies in their industry.

Once a stock makes the short list, the managers consider a worst-case scenario: declining revenues, shrinking profit margins and investors' souring on the stock. If they believe a 25% decline in the share price could be in the cards over the next 12 months, the managers move on. For the remaining names, the pair project a conservatively positive case. The stocks for which the pros outweigh the cons to the greatest extent headline the

60-stock portfolio. For example, the managers recently upped their exposure to top-10 holding Mid-America Apartment Communities (MAA). Tugman says the real estate investment trust, which owns apartment buildings in the Sun Belt, is less susceptible to falling rents or restrictions on increases than are firms operating in big, coastal cities.

The fund's defensive posture can hamper returns when stocks are hot but holds up when stocks hit the skids. The fund fared better than its benchmark when stocks slid in December 2018 and in the dismal second half of 2015. Over the past decade and a half, the fund delivered an 8.2% annualized return, less than a percentage point behind the index, but with 17% less volatility. In fact, the fund provided a smoother ride than 99% of mid-cap stock funds over the period.

**4 Parnassus Mid Cap** A member of the Kiplinger 25, the list of our favorite no-load mutual funds, Parnassus Mid Cap invests in a mix of midsize companies with growth and value characteristics. From the 800 or so stocks in the fund's benchmark Russell Midcap index, the team behind the fund, led by Matt Gershuny and Lori Keith, whittles the choices down to about 40 high-quality stocks. To be considered, firms must boast increasingly relevant products or services, a dominant position among peer firms and capable execs running the show. Companies are also evaluated on environmental, social and governance criteria, and some businesses, such as those commanding significant revenues from alcohol, tobacco or firearms, are excluded altogether. Finally, the managers project a stock's growth prospects against potential risks over the next three years, favoring firms with a narrow range of potential investment outcomes that trade below the managers' assessment of the company's true worth.

Gershuny is bullish on Burlington Stores (BURL), a business he says has historically been the "ugly stepchild" among discount retailers. But Gershuny likes the direction of the company under new CEO Mike O'Sullivan and sees an opportunity for the retailer to continue to strengthen its brand while expanding profit margins and boosting sales at existing stores.

There haven't been many cloudy days for Gershuny and Keith, who took the helm in 2008—about a year before the onset of a record-long bull market. But the fund has done its job during scattered showers, handily outpacing its bogey in 2011, 2015 and 2018—all tough years for stocks. This propensity to lose less when things go downhill should help the fund best the index over the course of a full market cycle, Gershuny says. And even in a strong bull market, the fund has performed admirably, posting an annualized return that trails the benchmark by only 0.6 percentage point over the past decade, with 14% less volatility.

**5 T. Rowe Price Diversified Mid-Cap Growth** Growth-stock investors, like baseball players, can be tempted to swing for the fences. But with investing, a strikeout means more than a trip back to the dugout—because an investment must return 100% to recoup a 50% loss. Don Easley and Don Peters, who helm T. Rowe Price Diversified Mid-Cap Growth, are happy to pass up the chance to go deep in favor of frequent base hits.

That means avoiding big bets. The fund holds a broadly diversified portfolio of more than 300 stocks, with no more than 1.6% of assets dedicated to any single name. The managers home in on steady growers—firms they believe can consistently increase earnings at double digit growth rates and that have track records of sustaining or boosting return on invested capital over full stock market cycles. But they don't want to overpay. Stocks in the portfolio trade at 20 times estimated earnings for the next 12 months, on average, compared with a multiple of 27 for the Russell Midcap Growth index. The managers will swoop in when stocks on their radar get cheap. When stocks slid in late 2018, the fund picked up discounted shares in software firms Coupa Software (COUP), Okta (OKTA) and Paycom Software (PAYC). The firms serve large, growing markets and operate subscription-based businesses that should generate steady profits, says Easley.

Results for the fund have been consistent. It has never trailed more than 55% of peer funds in a given year, or led more than 86% of them. But it has beaten the average mid-cap growth fund in eight of the past 10 years. ■

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Just Right

## TRY THESE FUNDS ON FOR SIZE

**Each of these mutual funds takes a unique approach to investing in midsize companies. Consider adding one of them to boost your allocation to this market sweet spot.**

| Fund | Symbol | Total return 1 year | Total return 5 years* | Average market cap (billions) | Expense ratio |
|---|---|---|---|---|---|
| **Baron Asset Retail** | BARAX | 22.0% | 12.8% | $16.8 | 1.30% |
| **Fidelity Mid-Cap Stock** | FMCSX | 12.5 | 8.8 | 8.8 | 0.67 |
| **Janus Henderson Mid Cap Value T** | JMCVX | 13.9 | 7.6 | 10.0 | 0.83 |
| **Parnassus Mid Cap** | PARMX | 15.2 | 9.7 | 13.2 | 0.99 |
| **T. Rowe Price Diversified Mid-Cap Gr** | PRDMX | 23.4 | 12.4 | 14.7 | 0.83 |
| **Index** | | | | | |
| RUSSELL MIDCAP INDEX | | **15.0%** | **8.9%** | **$14.1** | |

As of November 30, 2019. *Annualized. SOURCE: Morningstar Inc.

**ETF SPOTLIGHT**

# A Holistic Bet on Housing

This fund invests in all aspects of the real estate market.

**HOUSING REPRESENTS THE LARGEST** slice of the average American's annual spending, at 33%. Yet the few housing-related exchange-traded funds available to investors overlook huge chunks of the market. Some invest in builders of single-family homes and home-improvement stores but forgo multi-family investments such as apartment real estate investment trusts. ETFs that do hold these REITs, meanwhile, often leave out the homebuilders and DIY shops. With the **HOYA CAPITAL HOUSING ETF (SYMBOL HOMZ)**, you can invest in all three categories, and more.

HOMZ is offered by investment adviser Hoya Capital Real Estate. The ETF tracks the Hoya Capital Housing 100 index, made up of 100 stocks. The ETF puts 30% of assets in homebuilders and construction stocks, and another 30% in real estate operators such as apartment REITs. It then allocates 20% to home-improvement retailers, furniture stores and the like, and the last 20% to home financing, technology and services companies.

Low mortgage rates, slower-growing home prices and a glut of millennials hitting their prime home-buying years bode well for the housing industry. HOMZ provides access to an array of businesses poised to benefit.

The fund, launched in March 2019, has no track record to speak of. And assets, although growing well, are still small. That makes HOMZ speculative, but its approach is promising. Since its debut, the ETF has returned 17.6%, compared with 12.4% for Standard & Poor's 500-stock index over the same period. **KYLE WOODLEY**
*Kyle_Woodley@kiplinger.com*

## Hoya Capital Housing ETF

### KEY FACTS

**SYMBOL:** HOMZ
**RECENT PRICE:** $29
**ASSETS:** $8.6 million
**START DATE:** March 19, 2019
**STOCK HOLDINGS:** 100
**AVG. PRICE-EARNINGS RATIO:** 18
**AVG. MARKET VALUE:** $12 billion

### PERFORMANCE


### TOP FIVE HOLDINGS
**Account for 11% of Assets**

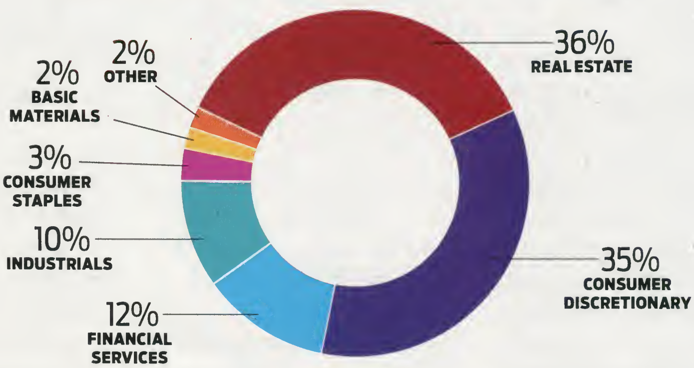
2.9% **HOME DEPOT** (HD)
2.9% **LOWE'S** (LOW)
1.6% **NVR** (NVR)
1.6% **EQUITY LIFESTYLE PROPERTIES** (ELS)
1.6% **PARK HOTELS & RESORTS** (PK)

# 1.9%

**THE ETF's YIELD**

**Income-friendly REITs offset low-yielding growth companies in the fund.**

### SECTOR BREAKDOWN: Housing Hodgepodge




## Housing-Related ETFs Ranked by assets

| Rank/Fund | Symbol | Assets (millions) | Annualized total return*: March 19–Nov. 30# | 1 yr. | 3 yrs. | Expense ratio |
|---|---|---|---|---|---|---|
| **1. iShares U.S. Home Construction** | ITB | $1,242 | 33.7% | 41.4% | 19.1% | 0.42% |
| **2. SPDR S&P Homebuilders** | XHB | 839 | 22.0 | 30.7 | 11.7 | 0.35 |
| **3. iShares Residential Real Estate** | REZ | 607 | 14.2 | 19.2 | 13.4 | 0.48 |
| **4. Invesco Dynamic Building & Construction** | PKB | 117 | 26.3 | 28.8 | 7.7 | 0.60 |
| **5. Hoya Capital Housing** | HOMZ | 9 | 17.6 | N/A | N/A | 0.45 |
| S&P 500 STOCK INDEX | | | **12.4%** | **16.1%** | **14.9%** | |

As of November 30, 2019. *Assumes reinvestment of dividends and capital gains; three-year returns are annualized. #Since HOMZ inception. N/A=not available; fund not in existence for the entire period. Expense ratio is the percentage of assets claimed annually for operating a fund. SOURCES: Hoya Capital Real Estate, Morningstar, Yahoo Finance.

REAL ESTATE

# Invest in a Landmark

Go from sightseer to part-owner with these notable property stocks.

BY JEFFREY R. KOSNETT

**IF YOU'RE LUCKY ENOUGH TO** attend the Kentucky Derby—standing-room tickets for May's 146th running recently sold for $89 online—you can wager a few bucks and perhaps take away a small profit for your memories. But it's possible to play the Derby another way: as a shareholder. For every $2 "wagered" on Churchill Downs stock 10 years ago, the stock-bettor would have $25 and change, a return of nearly 29% annualized. Not bad odds in the world of investing.

You can also own a piece of the storied Empire State Building, deemed one of the Seven Wonders of the Modern World by the American Society of Civil Engineers, as well as such marvels as the Golden Gate Bridge, the Panama Canal and the "Chunnel" connecting England to France. Or maybe country music's hallowed Grand Ole Opry strikes a chord, or the home of one of the world's most beloved soccer teams, Manchester United.

For investors with a yen for a little history along with their returns, we've put together a list of investable landmarks, including nine stocks of premier property owners. Overall, the bull market has been good to property and entertainment investors. If the stock collection below were an equal-weighted portfolio, it would have a one-year return of 18%, compared with 16% for Standard & Poor's 500-stock index, and a five-year gain of 11%, just about even with the S&P 500.

Not all of our picks have been big winners. Some are being refurbished as landmarks *and* as investments, and they might be more suited to bargain hunters comfortable with turnarounds or sightseers more interested in bragging rights as part-owners. Securities are listed in alphabetical order; returns and other data are as of November 30.

**Blackstone Group** (symbol BX)
Price $54, yield 3.61%, one-year return 66%
Landmark: Willis Tower, Chicago

The Willis Tower is still known widely as the Sears Tower. For 20-plus years after its 1973 construction, it was the tallest building in the U.S., and it's still as conspicuous as ever. Blackstone, a member of the Kiplinger Dividend 15, the list of our favorite dividend stocks, is a highly diversified holding company that owns a real estate empire extending from Motel 6 to luxury hotels to single-family homes.

**Boston Properties** (BXP)
$139, 2.74%, 8.5%
Salesforce Tower, San Francisco

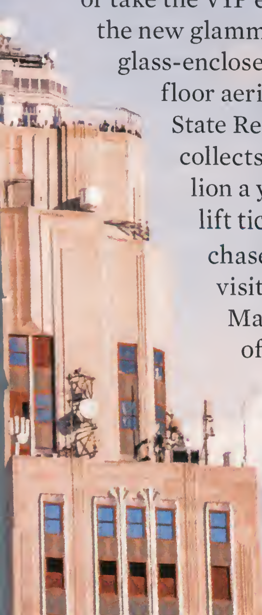
Salesforce Tower is the tallest building in the western United States and one of many impressive structures owned by Boston Properties, the biggest office real estate investment trust by total market value. The company's portfolio comprises 181 properties in core markets that include Washington, D.C., New York City and Boston, as well as San Francisco. Some $2.4 billion worth of property is in development and scheduled to come online between late 2020 and 2022—and 83% of it is pre-leased to high-quality tenants.

**Churchill Downs** (CHDN)
$130, 0.45%, 41%
The Kentucky Derby, Louisville

The Derby draws big crowds, with some visitors paying

not $89 but $5,000 or so for package deals to party all week and watch the two-minute race from the grandstand. The company actually deeded the racetrack to the city of Louisville in exchange for some help in developing amenities and expanding capacity, but it has the right to buy back the track from the city for $1. And what's important to the bottom line is the cash flow from the events. Churchill Downs also owns trademarks and other racetracks and casinos, and it is big in online betting. The combined enterprise in 2018 cleared a net $350 million in profits on $1 billion of revenue, a margin befitting a biotech winner rather than a sporting venture.

**Empire State Realty Trust** (ESRT)
$14, 3.01%, -11%
Empire State Building, New York
You can pay a tourist's $38 or a prince's $93 to ascend the Empire State Building, depending on whether you get in line to ride to the outdoor deck on the 86th floor or take the VIP express to the new glammed-up, glass-enclosed, 102nd-floor aerie. Empire State Realty Trust collects $125 million a year from lift tickets purchased by visitors. Alas, Manhattan office space is in a rare tailspin, and the Empire State Building still needs renovations to attract higher-grade corporate tenants. As a result, Empire State Realty shares languish at 30% below the value of the assets owned by the trust (including other New York City properties). That's a massive discount, and it proves there's no guarantee the capital markets will attribute extra value to a property owner just because its building is a famous or beloved landmark. Empire State Realty is slowly adding new and better tenants to the tower, however, and expects to close the gap between its rents and the average for Manhattan.



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**Las Vegas Sands** (LVS)
$63, 4.91%, 20%
Venetian and Palazzo resorts, Las Vegas
The complex includes the Venetian and Palazzo hotels and casinos, which together have 7,117 rooms and constitute America's largest hotel. (There's also a convention center.) The complex is not a formal historical landmark, but it exemplifies the Vegas Strip, which is a special symbol of America and a backdrop for many movie scenes. The firm's China and Singapore casinos and hotels currently provide most of the revenue and profits, as well as future growth prospects. But Las Vegas is what resonates.

**Manchester United PLC** (MANU)
$18, 0.97%, 1.4%
Old Trafford Stadium, Manchester, England
The history of public shareholders in big league sports is both limited and uninspiring. Way back when, industrial companies sometimes owned ball clubs to help market products; Anheuser-Busch once ran the St. Louis Cardinals. Today, the financial value of sports teams stems mostly from product licensing and real estate. Manchester United PLC owns the world's most popular sports team (it has 10 times the social media following of the New York Yankees), as well as its hallowed turf, which includes a café, museum and megastore. The company sweeps in far more from merchandise and sponsorships than from ticket sales. The company's U.S. owners control most of the shares, but the rest trade and pay a small dividend.

**Norfolk Southern Railway** (NSC)
$194, 1.94%, 15%
Horseshoe Curve, Altoona, Pa.
If you've seen photos of a train bent so sharply that riders in the front cars can see those in the rear, you're probably looking at this remarkable trackage in central Pennsylvania. As legend has it, Horseshoe Curve was high on the Nazis' list of U.S. targets to sabotage. Norfolk Southern, operating in 22 states and the District of Columbia, is successor to the curve's original owner, the Pennsylvania Railroad. The stock has been a splendid long-term investment: As of October 2019, the company has declared a stock dividend for 149 consecutive quarters.

**Ryman Hospitality Properties** (RHP)
$89, 4.03%, 25%
Ryman Auditorium, Nashville
Ryman Hospitality Properties is a hotel and entertainment REIT that changed its name from Gaylord Hotels after it restored the Grand Ole Opry's original home in downtown Nashville. The Ryman's history dates back to 1892, but it is now a state-of-the-art theater and concert venue that attracts such premier country acts as Vince Gill and Amy Grant, as well as the Moscow Ballet and Elvis Costello. It alternates Grand Ole Opry shows with the Opry's permanent location at Opryland, outside the city.

**Vornado** (VNO)
$65, 4.09%, -6.6%
The Mart, Chicago
This hulking structure on the Chicago River, built to be the nation's wholesale trade capital, was the world's largest by square footage when it opened in 1930. It has had some well-known owners, including Marshall Field (who built it) and the Kennedy family. It is now owned by Vornado, a REIT also known for owning some of those buildings in Times Square, where the advertising is bright and the ball drops on New Year's Eve. If you consider Times Square to be another one of a kind, then Vornado is a multi-landmark operation. The stock is deeply discounted currently, with some of the company's Manhattan office and retail space under pressure. ■

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**INCOME INVESTING** | Jeffrey R. Kosnett

# Taxable Munis? They're Worth a Look

To herald this new decade, I decree that we quit bemoaning the Great Recession and credit crisis of 2008–09 and its many calamities. It happened, it was costly, we learned something about defaults and diversification—and it's old news. But before we lock the door on those dark days, I offer a shout-out to one of the meltdown's few rewarding legacies: the taxable municipal bond.

Yes, there is such a thing. A handful are general obligation bonds, issued by municipalities, but the vast majority are construction or infrastructure bonds issued and backed by a public entity. Some 15% of fresh state and local debt today pays interest subject to federal income taxes, and the yields to maturity are considerably higher than Treasuries or regular municipals—often, over 3% for 15-year bonds or 5% for 20-year debt. In 2019, taxable muni issuance spiked amid high demand, and that has carried into 2020 because of the hunt for yield and these bonds' powerful appeal for IRAs, pension funds and foreign buyers who would gain no advantage from tax-frees anyway.

Overseas demand is often the trigger for issuers to add a smaller taxable portion to a large tax-exempt offering. After all, a 3.2%, 15-year bond rated A+ and backed by, say, an international airport's terminal and parking revenue is an easy sell in negative-yield Europe. Taxable muni issuers have recently included the Port Authority of New York and New Jersey, the Dallas–Fort Worth airport, the Multnomah County, Ore. (Portland-area) school district, and several state college and university systems.

*Sound* describes the credit quality. But it doesn't do justice to the performance of these bonds. Standard & Poor's Taxable Municipal index has returned 12.9% over the past year, compared with 8.1% for the comparable S&P long-term tax-free index and 10.8% for the broad bond market yardstick, the Bloomberg Barclays U.S. Aggregate. Vanguard's broadest taxable bond exchange-traded fund, BND, made 10.9%, which is sweet but not as spectacular as taxable muni returns. Lest you dismiss these munis as a one-year wonder, the 10-year annualized gain for that S&P taxable muni index is 6.5%, which beat the 5.3% from an index of bonds issued by firms in the S&P 500 index, a fair comparison of high-grade taxable issuers.

***SOUND DESCRIBES THE CREDIT QUALITY. BUT IT DOESN'T DO JUSTICE TO THE STELLAR PERFORMANCE.***

**Strong fundamentals.** The engines for continued impressive returns are the fundamentals, which include more-compelling yields than other taxable debt, comparable or superior credit ratings, and, as Baird municipals maven and portfolio manager Duane McAllister puts it, the security of knowing you are lending to public institutions rather than to corporations that are subject to industry cycles or laboring under high or questionable debt burdens. Recession, as always, is a risk, but where's the recession? Not seeing it, friends.

Taxable munis also benefit from being mostly non-callable, unlike corporate bonds. Although some are slated to be refinanced on a fixed schedule, you can assume the attractively high coupon will survive 10 years or longer. Jason Audette, who manages separate municipal accounts for Appleton Partners, calls the design "a low-risk, high-income anomaly." Though I often espouse owning individual muni bonds, there are a few of these I would reject, such as debts backed by nursing homes and minor-league baseball parks. Fund investors can consider the **INVESCO TAXABLE MUNICIPAL ETF** (SYMBOL BAB, $32), tracking the performance of a U.S. taxable muni debt index, and two closed-end funds, **BLACKROCK TAXABLE MUNICIPAL BOND TRUST** (BBN, $24) and **NUVEEN TAXABLE MUNICIPAL INCOME FUND** (NBB, $22).

The closed-ends' active management has given them an edge, and both are, remarkably, priced below net asset value. ■

POON WATCHARA-AMPHAIWAN

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SPOTLIGHT: VANGUARD HIGH YIELD TAX-EXEMPT

# Just Don't Call It Junk

Despite its name, this muni bond fund is keeping an eye on risk.

**NAMES CAN BE DECEIVING.** French fries aren't really French, and **VANGUARD HIGH-YIELD TAX-EXEMPT** fund isn't a high-yield bond mutual fund. In the bond investing world, the words *high yield* are interchangeable with *junk*—meaning bond issues rated below investment grade that pay high yields and come with an elevated risk of default. Vanguard High-Yield's peer group, however, is muni bond funds with long maturities. Though the fund's 15% stake in junk-rated or unrated muni debt is higher than the category average of roughly 4.5%, the typical fund in the *actual* high-yield muni category has 10 times that much—45%—in junk and unrated bonds.

The remainder of the fund's assets are in investment-grade issues. Its yield is a generous 2.3%, which, because income from municipal bonds is exempt from federal taxes, is the equivalent of a 3.9% yield for investors in the highest federal tax bracket.

Should interest rates remain low, the muni market is a relatively safe place to hunt for yield, says Mathew Kiselak, who's helmed the fund since 2010. In the 10 years through 2016, muni bonds defaulted only 0.18% of the time, compared with a 1.74% default rate for corporate bonds. Even so, the fund's portfolio is built with a watchful eye toward risk.

Portfolio construction starts with a custom benchmark modeled on the Bloomberg Barclays Municipal index, with a tilt toward lower-quality, higher-yielding names. From there, Kiselak relies on input from Vanguard's extensive muni bond team. In 2019, the fund began shifting assets from single-A-rated bonds to higher-quality, double-A-rated debt. Within the fund's slug of triple-B-rated debt (one step above junk and 22% of assets), the team favors bonds backed by revenues from essential services, such as airports, hospitals and toll roads, all of which are unlikely to fare poorly even in a recession.

Low costs allow the fund to deliver nice returns without wading deep into junky waters. The 0.17% expense ratio is less than a third of the average for similar funds. Over the past decade, the fund's 5.3% annualized return bested 91% of peer funds. The fund has beaten the Bloomberg Barclays muni index in nine of the past 10 calendar years. **RYAN ERMEY**

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### NATIONAL LONG-MATURITY MUNI BOND FUNDS

Ranked by one-year returns

| Rank/Name | Symbol | 1-year total return | Current yield | Max. sales charge | Exp. ratio |
|---|---|---|---|---|---|
| 1. Invesco Oppenheimer Municipal A | OPAMX | 10.9% | 1.8% | 4.25% | 0.90% |
| 2. Eaton Vance TABS 10-20 Yr Ldrd Mn Bd A | EATTX | 10.9 | 1.5 | 4.75 | 0.65 |
| 3. Robinson Tax Advantaged Income A | ROBAX | 10.9 | 2.6 | 3.75 | 2.92 |
| 4. Nuveen Strategic Municipal Opps A | NSAOX | 10.9 | 1.9 | 3.00 | 0.83 |
| 5. Pioneer AMT-Free Municipal A | PBMFX | 10.8 | 1.5 | 4.50 | 0.81 |
| 6. Vanguard High-Yield Tax-Exempt | VWAHX | 10.1 | 2.3 | none | 0.17 |
| 7. Lord Abbett National Tax Free A | LANSX | 10.0 | 1.8 | 2.25 | 0.77 |
| 8. Victory Tax-Exempt A | GUTEX | 9.9 | 1.7 | 2.00 | 0.80 |
| 9. Nuveen All-Amer. Municipal Bond A | FLAAX | 9.7 | 1.9 | 4.20 | 0.73 |
| 10. Fidelity Municipal Income@ | FHIGX | 9.6 | 1.7 | none | 0.46 |
| CATEGORY AVERAGE | | 8.7% | 1.7% | | |

### 20 LARGEST STOCK AND BOND MUTUAL FUNDS

Ranked by size. See returns for thousands of funds at kiplinger.com/tools/fundfinder.

**STOCK MUTUAL FUNDS**

| Rank/Name | Symbol | Assets† (billions) | Annualized total return 1 yr. | 5 yrs. | Max. sales charge |
|---|---|---|---|---|---|
| 1. Vanguard Total Stock Market Idx Adm | VTSAX | $741.0 | 15.3% | 10.6% | none |
| 2. Vanguard Total Intl Stock Idx Adm | VTIAX | 393.3 | 16.1 | 10.9 | none |
| 3. Vanguard 500 Index Adm | VFIAX | 385.6 | 10.9 | 4.2 | none |
| 4. Fidelity 500 Index Inv | FXAIX | 223.9 | 16.1 | 11.0 | none |
| 5. American Growth Fund of America A | AGTHX | 198.6 | 14.6 | 11.5 | 5.75% |
| 6. American EuroPacific Growth A | AEPGX | 166.1 | 15.5 | 5.3 | 5.75 |
| 7. American Balanced A | ABALX | 157.3 | 11.6 | 7.6 | 5.75 |
| 8. American Washington Mutual A | AWSHX | 126.3 | 13.1 | 10.0 | 5.75 |
| 9. Fidelity Contrafund | FCNTX | 119.7 | 16.4 | 12.4 | none |
| 10. American Income Fund of America A | AMECX | 113.9 | 10.9 | 6.1 | 5.75 |
| S&P 500-STOCK INDEX | | | 16.1% | 11.0% | |
| MSCI EAFE INDEX | | | 12.4% | 4.3% | |

**BOND MUTUAL FUNDS**

| Rank/Name | Symbol | Assets† (billions) | 1-year total return | Current yield | Max. sales charge |
|---|---|---|---|---|---|
| 1. Vanguard Total Bond Market Idx Adm | VBTLX | $199.3 | 10.8% | 2.2% | none |
| 2. Pimco Income A | PONAX | 132.2 | 7.1 | 2.7 | 3.75% |
| 3. Vanguard Total Intl Bd Idx Adm | VTABX | 117.1 | 9.5 | 0.5 | none |
| 4. Metropolitan West Total Return Bd M | MWTRX | 80.4 | 10.9 | 2.1 | none |
| 5. Vanguard Interm-Term Tax-Ex Inv | VWITX | 72.3 | 7.7 | 1.6 | none |
| 6. Pimco Total Return A | PTTAX | 67.4 | 9.4 | 2.1 | 3.75 |
| 7. Dodge & Cox Income@ | DODIX | 63.2 | 10.6 | 2.7 | none |
| 8. Vanguard Short-Term Inv-Grade Inv | VFSTX | 61.5 | 6.3 | 2.2 | none |
| 9. Lord Abbett Short Duration Income A | LALDX | 55.5 | 5.5 | 2.4 | 2.25 |
| 10. DoubleLine Total Return Bond N | DLTNX | 55.0 | 7.3 | 3.2 | none |
| BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX | | | 10.8% | 2.3% | |
| B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX | | | 8.7% | 1.9% | |

As of November 30. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. †For all share classes combined. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar Inc., Vanguard.

THE KIPLINGER 25 UPDATE

# A SMALL-CAP TURNAROUND

**FOR STOCK MUTUAL FUND AMG TIMESSQUARE INTERNATIONAL SMALL CAP**, the past year started with a *yelp* and ended with a *hurrah*. Over the past 12 months, it returned 15.9%, beating its benchmark, the MSCI EAFE Small Cap index, by 3.9 percentage points.

Foreign small-company stocks were sliding toward bear-market territory at the end of 2018, when trade and recession worries overwhelmed investors and sent the rest of the world's stock markets crashing. The correction "hit us hard, everywhere," says the fund's lead manager, Magnus Larsson.

To make sure the case for their stock holdings was still sound, Larsson and his analysts circled the globe to meet with company executives to find out whether there were legitimate business reasons for the sell-off. "The answer was no. The market was trading on headlines rather than on fundamentals," he says.

A swift turnaround came in 2019, however, and the fund's biggest losers became its biggest winners. Shares in Open House, a Japanese builder of affordable homes, and Japan-based Horiba, a leader in instruments that measure car emissions, posted double-digit losses in 2018. But both stocks soared 62% in the first 11 months of 2019. "We can't guess what the market will do tomorrow, but we can focus on investing in outstanding companies that we think can continue to grow," Larsson says.

Larsson and his team focus mostly on firms with market values of $5 billion or less in developed foreign countries. They favor best-in-class companies with sustainable competitive advantages. Since its inception in January 2013, the fund has returned 9.4% annualized, which beats the 8.6% return of the MSCI EAFE Small Cap index. French consulting firm Altran and media firm Nordic Entertainment Group are among the fund's top holdings.

The team is evolving. Comanager Robert Madsen is retiring. New members Rob Purcell, who focuses on Japan and developed Asia, Daniel De Jesus, a Latin America specialist, and David Oh, an emerging Asia expert, join analysts from Turkey and France. "We come from the markets we invest in," says Larsson, who is Swedish. **NELLIE S. HUANG**

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## KEY DATA FOR OUR MUTUAL FUND PICKS

Kiplinger 25 funds are no-load; you can buy them without sales charges. For more about the funds, visit kiplinger.com/links/kip25.

| U.S. Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| D.F. Dent Midcap Growth | DFDMX | 26.6% | 14.0% | — | 0.4% | 0.98% |
| Dodge & Cox Stock | DODGX | 7.8 | 9.0 | 12.5% | 2.6 | 0.52 |
| Mairs & Power Growth | MPGFX | 13.7 | 9.5 | 13.0 | 1.9 | 0.64 |
| Parnassus Mid Cap | PARMX | 15.2 | 9.7 | 12.9 | 1.4 | 0.99 |
| T. Rowe Price Blue Chip Growth | TRBCX | 16.5 | 14.4 | 16.1 | 0.7 | 0.70 |
| T. Rowe Price Dividend Growth | PRDGX | 17.3 | 11.5 | 13.2 | 2.0 | 0.64 |
| T. Rowe Price QM US Sm-Cp Gro | PRDSX | 15.3 | 11.3 | 15.9 | 0.6 | 0.80 |
| T. Rowe Price Sm-Cap Value | PRSVX | 8.7 | 9.1 | 12.2 | 1.5 | 0.85 |
| T. Rowe Price Value | TRVLX | 11.9 | 7.6 | 12.0 | 2.1 | 0.78 |
| Primecap Odyssey Growth | POGRX | 8.5 | 11.6 | 14.5 | 1.3 | 0.65 |
| Vanguard Equity-Income | VEIPX | 11.1 | 9.3 | 12.8 | 3.1 | 0.27 |
| Wasatch Small Cap Value | WMCVX | 6.5 | 9.6 | 13.2 | 2.2 | 1.20 |

| International Stock Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| AMG TimesSquare Intl Sm Cap | TCMPX | 15.9% | 7.8% | — | 2.6% | 1.23% |
| Baron Emerging Markets | BEXFX | 9.2 | 2.8 | — | 2.4 | 1.36 |
| Fidelity International Growth | FIGFX | 23.4 | 7.7 | 8.8% | 1.8 | 0.95 |
| Oakmark International | OAKIX | 12.7 | 3.8 | 7.3 | 4.3 | 0.96 |

| Specialized/ Go-Anywhere Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| Vanguard Health Care | VGHCX | 9.1% | 8.0% | 14.3% | 1.6% | 0.34% |
| Vanguard Wellington‡ | VWELX | 14.2 | 8.1 | 9.7 | 2.8 | 0.25 |

| Bond Funds | Symbol | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield | Expense ratio |
|---|---|---|---|---|---|---|
| DoubleLine Total Return N | DLTNX | 7.3% | 3.0% | — | 3.2% | 0.73% |
| Fidelity Adv Strategic Income | FADMX | 8.9 | 3.9 | 4.9% | 3.2 | 0.69 |
| Fidelity Intermed Muni | FLTMX | 7.3 | 2.9 | 3.5 | 1.5 | 0.37 |
| Fidelity New Markets Income | FNMIX | 9.1 | 4.1 | 5.9 | 4.8 | 0.84 |
| Met West Total Return Bond M | MWTRX | 10.9 | 2.9 | 4.7 | 2.0 | 0.67 |
| Vanguard High-Yield Corporate | VWEHX | 11.9 | 5.3 | 7.3 | 4.5 | 0.23 |
| Vanguard Sh-Tm Inv-Grade | VFSTX | 6.3 | 2.3 | 2.6 | 2.3 | 0.20 |

| Indexes | Annualized total return 1 yr. | 5 yrs. | 10 yrs. | Yield |
|---|---|---|---|---|
| S&P 500-STOCK INDEX | **16.1%** | **11.0%** | **13.4%** | **1.9%** |
| RUSSELL 2000 INDEX* | **7.5** | **8.2** | **12.4** | **1.5** |
| MSCI EAFE INDEX† | **12.4** | **4.3** | **5.3** | **3.2** |
| MSCI EMERGING MARKETS INDEX | **7.3** | **3.1** | **3.3** | **2.8** |
| BLOOMBERG BARCLAYS AGG BND IDX# | **10.8** | **3.1** | **3.6** | **2.3** |

As of November 30. ‡Open to new investors if purchased directly through the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices. Yields listed are SEC yields for bond funds; weighted average portfolio yields for stock funds.

## COUPLES & MONEY:

# WHEN TOGETHER IS BETTER

JESSE AND ROXANNE LOPEZ WILL DIVERSIFY THEIR RETIREMENT INVESTMENTS WHEN ROXANNE OPENS HER OWN PLAN.

PHOTOGRAPH BY JOSH RITCHIE

Even if you and your spouse have worked out the kinks in your day-to-day money habits, it's important to reexamine the big picture.

BY MIRIAM CROSS

If you've been married for a few years, you and your spouse have probably figured out which expenses and bank and credit accounts to share and which to keep separate. But when it comes to your big-picture finances—such as getting the most out of your retirement plans, coordinating health coverage and lowering your tax bill—the decisions get more complicated. In fact, the strategies that worked best for you as individuals can look entirely different when you approach them as a couple.

In 2008, Scott Godes of Rockville, Md., was working at a firm that didn't offer a match for his 401(k) contributions. His wife, Deb, did receive a match. Instead of contributing to his 401(k), he used the money to pay off a home equity line of credit the couple had taken to upgrade their home, and she contributed enough to her 401(k) to capture the match. Their goal was to decrease their debts while saving as much as possible, Scott says. "We had to coordinate and recognize that

we were doing things differently, but for the benefit of both of us."

More than 10 years later, both Deb, who works in health care policy, and Scott, now a partner at a law firm, are maxing out their 401(k)s. With the help of their financial adviser, Darren Straniero, they're balancing long-term savings with shorter-term goals, including shoring up their 529 college-saving plans (their older daughter is in high school) and planning a bat mitzvah for their younger daughter.

## Save Wisely For Retirement

Unlike bank accounts or credit cards, retirement plans can never be joint. But some couples fall into the trap of saving for themselves rather than for the household. A 2019 study by the Center for Retirement Research at Boston College found that dual-earner couples run into trouble when one doesn't have a workplace retirement plan, such as a 401(k). The spouse *with* the workplace plan often neglects to save enough for two to live on in retirement, even though the couple has the advantage of two incomes. "People act like individuals no matter what," says Geoffrey Sanzenbacher, who co-authored the study. His recommendation: Couples should stash a total of 10% to 15% of their household earnings, rather than their personal earnings, in retirement accounts.

Once you and your spouse have worked out how much to save, dig into the strengths and weaknesses of each of your plans. When Ann Gugle, a certified financial planner with Alpha Financial Advisors in Charlotte, N.C., meets with married clients, she'll scrutinize the summary plan descriptions for each spouse's retirement account. "The summary plan description is often overlooked, but it is a gold mine of information," says Gugle. These documents can be long, so she recommends focusing on the sections that describe your contribution options and matches. For example, one of you may have a less-generous match or access to a Roth option.

After setting aside enough money so that each of you gets the employer match, if any, compare the menu of investment options, fees and any advantageous features to decide how you and your spouse should allocate your income. That's especially important if you can't afford to max out your plans. (The limit for 401(k) and most other workplace retirement plans is $19,500 in 2020, with catch-up contributions of $6,500 for those 50 or older.)

Say one spouse has a huge array of investments to choose from and the other has more-limited options. Start by picking the best of those limited funds—even if they are all, say, small-cap stock funds or international stock funds—and fill in the gaps from the other spouse's menu of investments to balance out your overall portfolio.

Consider opening a Roth IRA as well. You invest in a Roth with after-tax dollars, and your money continues to grow and compound free of taxes. Withdrawals are also tax-free once you reach age 59½ and you've held the Roth for five years. If you and your spouse file your taxes jointly, you can each contribute up to $6,000 to a Roth IRA in 2020 ($7,000 if you are 50 or older) as long as your combined modified adjusted gross income is less than $196,000. The contribution limits then start to phase out, before disappearing completely once your MAGI hits $206,000.

If your income is too high for a Roth IRA, you may be able capitalize on after-tax or Roth savings in your 401(k), where you don't need to worry about income limitations. If only one spouse has access to a Roth 401(k), consider focusing on the Roth for that spouse and traditional pretax savings for the other spouse, says Gugle. Or, some plans may allow employees to save after-tax money once they have maxed out their pretax deferrals, up to an overall limit of $57,000 in 2020 ($63,500 if you're 50 or older). Depending on your plan, you may be able to roll that money into a Roth IRA each year as an in-service distribution.

KipTip

### How Your Credit Affects Your Spouse

**Your credit scores and reports reflect your personal credit history. But your creditworthiness can affect your spouse, and vice versa, depending on which loans you apply for together.**

**When applying for a mortgage as a couple, lenders will often pull your three credit scores—from Equifax, Experian and TransUnion—and use the middle score to assess your credit risk. For other types of loans, lenders may pull only one score per applicant and rely on the lowest score, or weight the scores. Either way, if one spouse has a high score and one has a poor score, the pair could end up paying a higher rate.**

**One solution: Let the spouse with the higher score take out the mortgage loan or buy the family car, assuming he or she has enough income to qualify. "Some people think that idea is absurd, because you're a married couple and one cohesive unit for everything," says credit expert John Ulzheimer, formerly of FICO and credit bureau Equifax. "But the only reason to apply jointly is if you need two incomes to qualify."**

**Your credit score, along with your claims history, can also affect your insurance premiums if you combine home or auto insurance policies with your spouse. "If you have a fantastic credit history but tend to file claims, that could override your reputation and vice versa," says Ulzheimer. Shop for auto policies both together and separately to see which wins out. (For advice about improving your credit score, see "8 Ways to Boost Your Credit Score," Aug.)**

If that isn't an option, you can roll the after-tax contributions to a Roth IRA once you retire or leave your job (you'll owe taxes on any pretax amount), and roll the earnings on the after-tax portion and pre-tax deferrals to a rollover IRA to continue tax-deferred growth.

It often makes sense to invest most of the Roth 401(k) in stocks to take advantage of the higher growth potential free from taxes, while opting for a more conservative mix in the traditional 401(k) because you'll probably take that money out first. Your individual plans may look unbalanced, but think of them as a marital asset rather than two personal accounts, says Eric Ross, a CFP with Truepoint Wealth Counsel in Cincinnati.

You will need to get even more creative if only one spouse is working. One option for couples who file a joint return is for the working spouse to open and contribute to a Roth or traditional "spousal IRA" for the non-working partner. In 2020, the couple can deduct up to $6,000 —$7,000 if the non-working spouse is 50 or older—in contributions to a traditional IRA as long as the couple's MAGI is $196,000 or less.

Jesse and Roxanne Lopez, who live in New Albany, Ohio, have mostly contributed to his retirement accounts for the past 14 years as she stayed home with their three children and he worked as an anesthesiologist. About six months ago, Roxanne launched her own business, MakeItJustSew.com. Once her website starts earning money, she plans to open a solo 401(k) or self-directed IRA to ramp up their retirement savings. Until now, they've been limiting themselves to the low-cost index funds offered through Jesse's workplace account. But once Roxanne opens her own plan, she can choose from a broader mix of funds.

**True or False?**

## TAKE OUR QUIZ...

**Are you and your spouse on the same page when it comes to your finances?**

**1. If both of your employers offer health insurance benefits, it's always better to drop one plan and enroll in the other plan as a couple.**

**2. He is paying off $10,000 in credit card bills, while she pays the balance on her cards in full every month. Because they're married, they're both responsible for his debt.**

**3. If one spouse invests aggressively in the stock market and the other keeps money in a low-interest savings account, they're better off keeping their investing lives separate.**

**4. One spouse has an excellent 780 credit score, while the other has a less desirable 610. They want to apply for a mortgage. The couple's best bet may be to apply for the loan based solely on her income.**

**5. When there's cash to spare, one spouse wants to put it into a savings account, and the other would like to spend it on biking gear. The best way for a spender-saver match to head off a fight is to keep some of their money separate.**

**6. You want to save money for your kids' future college education and for your retirement. Your best bet is to divide your savings between the two.**

*For the answers, see the next page.*

## Coordinate Social Security Benefits

You and your spouse can maximize Social Security by coordinating when you claim benefits. One solid strategy for a dual-income couple is for the higher earner to delay claiming until age 70. Benefits grow 8% each year after full retirement age until age 70. (FRA is 66 for people born in 1954 but it gradually rises to 67 for people born later.) Meanwhile, the lower earner could take his or her benefit earlier to provide income to pay expenses. Single-income couples may face a harder choice. Someone who hasn't worked enough to earn Social Security benefits can't claim a spousal benefit until the earner claims his or her benefit. If the couple can afford to go without Social Security income until 70, they may want to wait. If not, they should aim to delay claiming at least until full retirement age.

The class of baby boomers who can take advantage of the "restricting an application to spousal benefits" strategy is rapidly diminishing, but if you were born before January 2, 1954, you still qualify. The strategy allows the higher-earning spouse to restrict an application to spousal benefits only, giving the beneficiary some Social Security income (50% of the spouse's benefit). Meanwhile, his or her own retirement benefit can grow until age 70. The beneficiary must be full retirement age, and the lower-earning spouse must have already claimed his or her benefit. To take advantage of this strategy before it disappears, be aware that some Social Security representatives may be unaware of the strategy. You may need to speak to a supervisor to resolve the issue.

## Choose the Best Health Coverage

Health insurance doesn't come cheap for families: A survey by the Kaiser Family Foundation found that annual family premiums for employer-sponsored health insurance rose 5%, to an average of $20,576 in 2019. If you and your spouse can both access health insurance through work, you'll need to choose between keeping your own individual plans or doubling up under one. If you have children, you can cover them under one parent's plan or move the whole household onto a family plan. More employers are breaking their coverage options into tiers, says Tracy Watts, senior partner at benefits consultant Mercer, with the "employee plus children" category often costing less than "employee plus spouse" or "employee plus family."

Add up the annual premiums for

each option and subtract any incentives from your employer, such as a deposit into a health savings account (HSA) for a high-deductible plan. Factor in a spousal surcharge—roughly $100 per month among many large companies, according to Mercer. Consider the size of the deductible and out-of-pocket maximums. Do the same with dental and vision plans, in case one spouse has stronger coverage in those areas than the spouse with the most attractive health insurance.

Don't forget to look for niche benefits, such as fertility treatments, mental health care or therapies for special needs. And check that your preferred doctors are included in the plan you're leaning toward.

Finally, factor in how often you and your family seek treatment. If your family is healthy with few ongoing medical issues, a high-deductible policy that is eligible for an HSA may be the best choice; such policies typically come with lower premiums than preferred provider organizations (PPOs) and other plans (see "Your Guide to Open Enrollment," Nov.). In a family high-deductible plan that is HSA-eligible, any one person or combination of people on the plan will need to meet the deductible (at least $2,800 for a family in 2020) before the plan starts paying out.

But the ability to save for current and future health care costs in an HSA is extremely valuable. Contributions are pretax (or tax-deductible if your HSA is not from an employer), the funds grow tax-free, and withdrawals for qualified medical expenses aren't taxed. You can also carry over HSA funds from year to year to pay for health care far into the future. In 2020, you can chip in up to $7,100 for family coverage.

The Lopez family is covered under Jesse's high-deductible health plan, and he maxes out his HSA each year. "We would save $2,000 to $3,000 in out-of-pocket costs with a PPO, but we chose the high-deductible health plan because it enables us to save in an HSA," says Jesse.

If you and your spouse decide to keep separate plans, you still need to coordinate in one key area, says Ross. If one person in the household has a health care flexible spending account (FSA), the other spouse cannot contribute to an HSA. In general, the HSA is the more valuable benefit because you can roll over all unused funds, which isn't the case with an FSA.

**True or False?**

## ...AND THE ANSWERS ARE

1. **False.** Depending on the plan and your employer subsidy, it may be cheaper to maintain two separate health insurance policies. You can revisit the issue if your family situation changes or you switch jobs.

2. **False.** It's his debt and his responsibility. However, each couple must decide how to handle the situation in a way that works best for them. Perhaps they agree that he should concentrate on paying off his debt while she focuses on saving money for their short- and long-term goals.

3. **False.** A couple with different tolerances for risk can make a good investing team because they can play to their strengths and compensate for one another's weaknesses. Take a big-picture view of your investments, and make sure your overall asset allocation is appropriate for your age and goals.

4. **True.** The spouse with the higher score will snag a lower interest rate on a loan. However, applying based on one income could reduce the amount they can borrow.

5. **True.** Keeping separate bank accounts for the occasional splurge can go a long way toward avoiding ugly fights over money. Consider setting up a joint checking account and credit card for mutual expenses, as well as maintaining separate checking accounts and credit cards—as long as you set boundaries regarding how much each partner can spend without discussing a purchase with the other in advance.

6. **False.** Your kids can borrow money for college, apply for scholarships, work to earn extra cash and shop for less-expensive schools. But there are no scholarships or loans for retirement, so put your future first. Make sure you contribute at least enough money to your 401(k) plan to capture any employer match before diverting money to college savings.

### Lower Your Tax Bill

For most married couples, it makes sense to file jointly. For the 2019 tax year, you can take a standard deduction of $24,400 ($24,800 for 2020), which is twice the standard deduction for married filing separately, and access a number of credits and deductions unavailable to couples who file separately. You can also use your spouse's losses to offset your capital gains (and vice versa) and qualify for a $500,000 tax exclusion on profits from a home sale, rather than $250,000 for single filers.

But there are some scenarios in which you may benefit by filing separately. In 2019 and 2020, you can deduct only unreimbursed medical expenses that exceed 10% of your adjusted gross income. If you or your spouse has a lot of medical expenses, you may be able to deduct a portion of them if you report a lower adjusted gross income because you've filed separately.

Or, if you participate in an income-driven repayment plan for your student loans, you may save on your monthly payments when filing separately because the payments will usually be based on your income alone.

Finally, don't assume that your decision to file jointly for federal taxes means you need to do the same at the state level, says Lynn Ebel, director of the Tax Institute at H&R Block. If you're wondering which filing strategy makes sense, test both scenarios using software or speak with a tax professional about your situation. ■

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BANKING

# Make Your Mobile Payments More Secure

**APPLE PAY DEBUTED MORE** than half a decade ago, and some other mobile wallets were around years before that. But Americans still have qualms about making payments with their smartphones. A Pew Charitable Trusts survey shows that 29% of respondents say that they sometimes or always choose not to use mobile payments because they are concerned about potential loss of funds. What's more, 38% of respondents said that mobile payments are poorly protected, compared with 28% who shared that view about prepaid debit cards, 22% about standard debit cards and 9% about credit cards.

### RATE UPDATES

For the latest savings yields and loan rates, visit **kiplinger .com/links/rates**. For our top rewards cards, go to **kiplinger .com/links/rewards**.

**How you're protected.** In fact, the federal liability rules that cover credit and debit card accounts apply whether you use a card or link your account through a mobile-payment service. For unauthorized use of a credit card, you'll owe no more than $50 for fraudulent transactions—and you'll have no liability if the card number but not the card itself is stolen. For both regular debit cards and prepaid cards, your liability is a maximum $50 if you report loss or theft within two days of learning about it; up to $500 if you report fraud less than 60 days after your statement is sent to you; and unlimited if you wait more than 60 days. (Register your prepaid card with the issuer to ensure protections.) If your debit card number is compromised but not the physical card, you have no liability as long as you report it within 60 days.

With payment apps such as Google Pay, PayPal or Venmo, if you use a balance held by the app rather than a connected credit or debit card to transfer money, you'll generally receive the same liability protections as with debit and prepaid cards. The liability rules do not extend to gift cards, including stored funds usable only at a single merchant.

For added protection, lock your phone's home screen as well as any payment apps with a PIN, password or biometric identifier. Set up the ability to wipe your device of data remotely in case it's lost or stolen. For an Android phone, enable "Find My Device." With an iPhone, turn on "Find My iPhone." **LISA GERSTNER**
*Lisa_Gerstner@kiplinger.com*

## TOP-YIELDING SAVINGS

| Taxable Money Market Mutual Funds | 30-day yield as of Dec. 3 | Minimum investment | Website (www.) |
|---|---|---|---|
| **Vanguard Prime MMF** (VMMXX) | 1.78% | $3,000 | vanguard.com |
| **Gabelli US Treas AAA** (GABXX) | 1.74 | 10,000 | gabelli.com |
| **Vanguard Federal MMF** (VMFXX) | 1.66 | 3,000 | vanguard.com |
| **Meeder Prime MMF** (FFMXX)* | 1.59 | 2,500 | meederinvestment.com |

| Tax-Free Money Market Mutual Funds | 30-day yield as of Dec. 2 | Tax eq. yield 24%/35% bracket | Minimum investment | Website (www.) |
|---|---|---|---|---|
| **Vanguard Muni MMF** (VMSXX) | 1.07% | 1.41%/1.65% | $3,000 | vanguard.com |
| **M Stanley T-F Daily Inc** (DSTXX)* | 0.94 | 1.24/1.45 | 5,000 | morganstanley.com |
| **BNY Mellon Ntl Muni** (MOMXX) | 0.90 | 1.18/1.38 | 10,000 | bnymellon.com |
| **Fidelity Muni MMF** (FTEXX) | 0.81 | 1.07/1.25 | 1 | fidelity.com |

| Savings and Money Market Deposit Accounts | Annual yield as of Dec. 6 | Minimum amount | Website (www.) |
|---|---|---|---|
| **CFG Bank** (Md.)†# | 2.30% | $25,000 | thecfgbank.com |
| **State Bank of India** (Ill.)† | 2.25 | 500 | sbichicago.com |
| **Customers Bank** (Pa.)† | 2.25 | 25,000 | customersbank.com |
| **BrioDirect** (N.Y.)† | 2.20 | 25 | briodirectbanking.com |

| Certificates of Deposit 1-Year | Annual yield as of Dec. 6 | Minimum amount | Website (www.) |
|---|---|---|---|
| **CommunityWide FCU** (Ind.)& | 2.25% | $1,000 | comwide.com |
| **Quontic Bank** (N.Y.)† | 2.25 | 1,000 | quonticbank.com |
| **USAlliance Financial** (N.Y.)& | 2.20 | 500 | usalliance.org |
| **Live Oak Bank** (N.C.)† | 2.15 | 2,500 | liveoakbank.com |

| Certificates of Deposit 5-Year | Annual yield as of Dec. 6 | Minimum amount | Website (www.) |
|---|---|---|---|
| **Lafayette FCU** (Md.)& | 3.03% | $500 | lfcu.org |
| **Pen Air FCU** (Fla.)& | 2.95 | 500 | penair.org |
| **Hiway FCU** (Minn.)& | 2.85 | 25,000 | hiway.org |
| **DollarSavingsDirect** (N.Y.)† | 2.80 | 1,000 | dollarsavingsdirect.com |

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. &Must be a member; to become a member, see website. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

## TOP CHECKING ACCOUNTS

Must meet activity requirements*

| High-Yield Checking | Annual yield as of Dec. 6 | Balance range† | Website (www.) |
|---|---|---|---|
| **Consumers Credit Union** (Ill.)# | 5.09%‡ | $0-$10,000 | myconsumers.org |
| **La Capitol FCU** (La.)# | 4.25 | 0-3,000 | lacapfcu.org |
| **TAB Bank** (Utah)§ | 4.00 | 0-50,000 | tabbank.com |
| **One American Bank** (S.D.) | 3.50 | 0-10,000 | oneamericanbank.com |

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. #Must be a member; to become a member, see website. ‡Requires spending $1,000 or more in CCU Visa credit card purchases. §T-Mobile Money offers a similar yield for wireless customers. SOURCE: DepositAccounts.

| YIELD BENCHMARKS | Yield | Month-ago | Year-ago |
|---|---|---|---|
| **U.S. Series EE savings bonds** | 0.10% | 0.10% | 0.10% |
| **U.S. Series I savings bonds** | 2.22 | 2.22 | 2.83 |
| **Six-month Treasury bills** | 1.56 | 1.57 | 2.56 |
| **Five-year Treasury notes** | 1.67 | 1.63 | 2.75 |
| **Ten-year Treasury notes** | 1.84 | 1.81 | 2.87 |

SOURCE: U.S. Treasury

As of December 6, 2019.

- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

# Plan Now to Retire Worry-Free

Are you saving enough for retirement? Our 10 steps will help you finance the lifestyle you've always wanted.

**BY SANDRA BLOCK**

**As you approach retirement,** it's easy to become fixated on the magic number—a pot of money large enough to allow you to retire comfortably without outliving your savings. But figuring out whether you can afford to retire requires math, not magic, along with a thoughtful analysis of how you plan to spend your time and money. On the following pages, we'll help you come up with a realistic estimate of how much money you'll need to retire in style. // Plenty of online calculators will help you figure out whether you can afford to retire based on the amount of money you'll need to replace a specific percentage your current income. A popular rule of thumb, for example, suggests that you should plan on replacing 70% of what you currently make, or 80% if you want to live large. But this guideline is deeply flawed, financial planners say. During their early years in retirement, many retirees end up spending as much as or more than they did when they were working, says Jennipher Lommen, a certified financial planner in Santa Cruz, Calif. // However, if you were to move to a lower-cost area, say, or stop supporting adult children, your living expenses could drop in

 ILLUSTRATIONS BY ANDREW LYONS


Retirement plans
Stream Game of Thrones & Breaking Bad
New Sailboat
Hike Machu Picchu
Alaskan cruise
Remodel kitchen
Explore Australia
Visit grandkids

retirement. *When* you retire matters, too: If you retire before age 65, for example, you'll need to figure out how to pay for health care before you're eligible for Medicare.

To come up with your own magic number, you need to figure out how much you'll actually spend in retirement, which means coming up with a comprehensive retirement budget. Only then can you determine whether your savings and other sources of income are sufficient to finance the lifestyle you've envisioned.

You'll also need to estimate how long your money will need to last. You may have heard of the 4% rule, which is considered a safe withdrawal rate for a 30-year retirement that might include a bear market and periods of high inflation. Under this rule, you withdraw 4% from a diversified portfolio in the first year of retirement and adjust the amount annually by the previous year's rate of inflation. For example, with a $1 million portfolio, your first year's withdrawal would be $40,000 (see "Harvest the Fruits of Your Savings," Oct.).

But this strategy won't help you much if a 4% withdrawal rate won't cover your living expenses. Once you've worked out your retirement budget, you can determine whether a 4% withdrawal rate—combined with other sources of income, such as Social Security and a pension, if you have one—will be sufficient to pay the bills. If not, you may need to save more, work a few more years, or both.

That's a sobering thought, but this exercise can also be liberating. You may determine that a 4% withdrawal rate will provide more than enough money for a comfortable retirement, with some left over for your heirs. Several studies have shown that many retirees are so worried about running out of money that they're unwilling to spend their savings, even if they've accumulated a substantial nest egg.

"When we all started talking about what people would do with their 401(k) balances, the initial thought was that they would take a trip around the world," says Alicia Munnell, director of the Center for Retirement Research at Boston College. Instead, many are "paralyzed and don't feel comfortable taking money out of their accounts," she says.

Here's how to break out of this inertia. You may find that you can afford to book that dream cruise after all.

## 1. Figure out how much you're spending now

You may have a vague idea of how much you're spending based on how much is left over from your paycheck every month. But do you really know how much of your paycheck goes toward groceries, gas, movies and all of life's other necessities and non-necessities? Now is the time to get a handle on the cost of your lifestyle. Comb through your credit card and bank statements and track all of your expenses for the past three to six months. Don't overlook expenses that occur quarterly or biannually, such as property taxes. You can enlist tools such as Mint.com to get a breakdown of spending categories; some credit and debit card providers will also categorize your expenses for you. Review your pay stubs to plug in the amount you pay for health insurance premiums, retirement savings, and state and local taxes. The more specific you can be, the better. Ian Rea, a certified financial planner in Medfield, Mass., asks clients who are preretirees to fill out a 50-line spreadsheet that covers everything from life insurance premiums to pet care. Use a software program, spreadsheet or worksheet such as the one on page 51 to list your expenses.

Staying Home

### After the Go-Go Years

Retirees typically spend less as they age. Average household spending is based on data from the Bureau of Labor Statistics:


SOURCE: FIDELITY

## 2. Back out expenses that will decline or disappear

Once you retire, you'll no longer contribute to a 401(k) or other workplace retirement plan, so that expense will go away. If you contribute to a health savings account through your job, that expense will go away, too—once you sign up for Medicare, you can no longer contribute to an HSA (but you can use the money in your account to pay for unreimbursed health care costs).

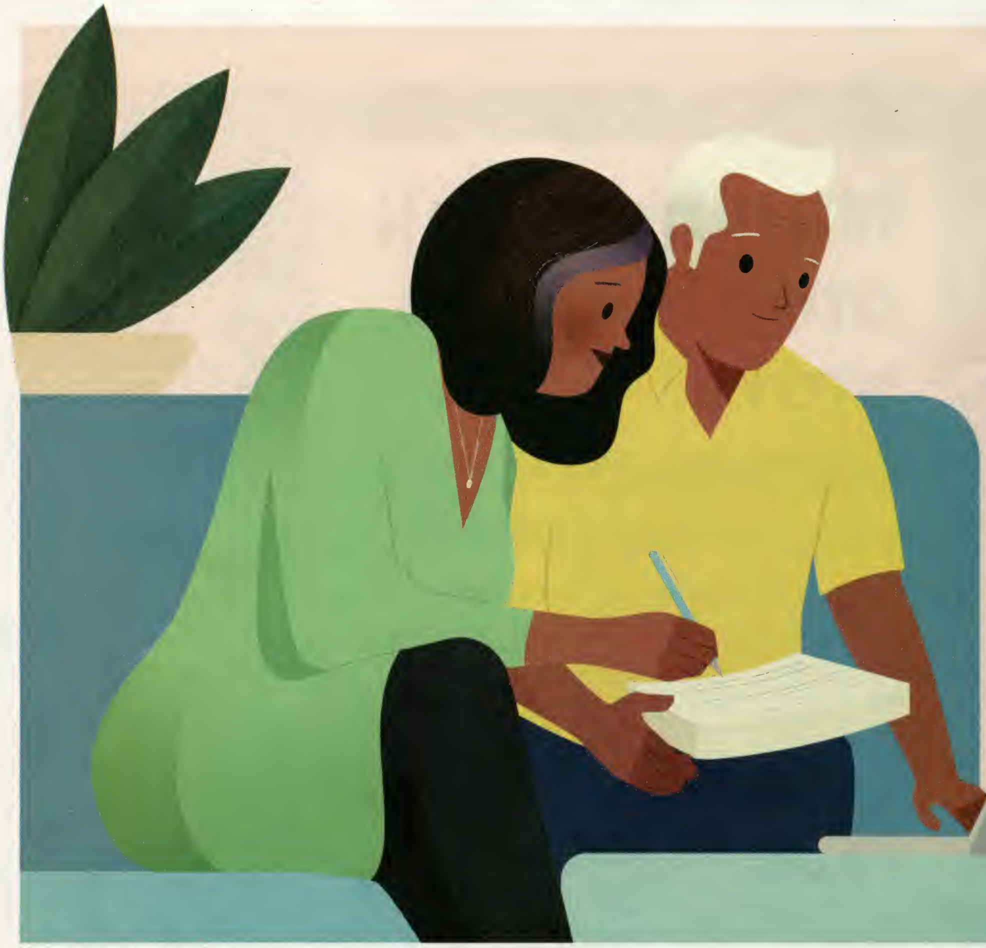
If you plan to pay off your mortgage, that's a large line item you can remove from your budget (although you'll still need to plan for property taxes, homeowners insurance and maintenance). You can remove health insurance premiums deducted from your paycheck, but be prepared to add back costs for health care, even if you're eligible for Medicare (see step 4).

Some preretirees still have adult children "on the payroll"—that is, they're providing financial support, either directly or indirectly (the kids still live at home, for example). That can complicate your estimates of how much you'll spend in retirement, especially if you plan to cut them loose after you stop working, says Sean Curley, a CFP in Greenwood Village, Colo. Likewise, if you gave a child money for a down payment on a home, that's an expense you can remove from your spending checklist.

## 3. Figure out the cost of your retirement lifestyle

Give some serious thought to how you'll spend your time—and money—

once you stop working. The first few years of retirement—65 through 70, for example—are often referred to as the "go-go years," a term popularized by Michael Stein, a CFP and author of *The Prosperous Retirement.* It's the period when many retirees are still in good health and eager to do all of the things they didn't have time to do when they were working. Retirees "always spend more on travel and entertainment than they thought they would," says Jorie Johnson, a CFP in Brielle, N.J. Instead of one big annual vacation, they'll go on two or three trips a year, she says. Even if your dream retirement involves staying close to home and working in the garden, your heating (or air conditioning) bill will probably go up because you'll be home all day. You may also decide that it's high time to renovate your kitchen—which you'll be using more because you'll have more time to cook. (For strategies to test-drive your retirement, see page 52.)



## 4. Get a handle on health care expenses

The average Medicare beneficiary spent more than $5,400 in out-of-pocket costs for health care in 2016, according to the Kaiser Family Foundation. The total includes spending on premiums for Medicare Part B, prescription drugs, supplemental insurance and other costs.

To estimate your individual costs, you'll need to decide whether you want to sign up for Medicare Part B plus Part D and a medigap plan—a supplemental policy that covers costs traditional Medicare doesn't cover—or Medicare Advantage. Medicare Advantage plans provide medical and drug coverage from a private insurer that has its own network of doctors. To figure out how much you'll need to budget for the plan you choose, go to Medicare's Plan Finder at www.medicare.gov/plan-compare. You can also click on a link that will provide information about the costs of various medigap policies.

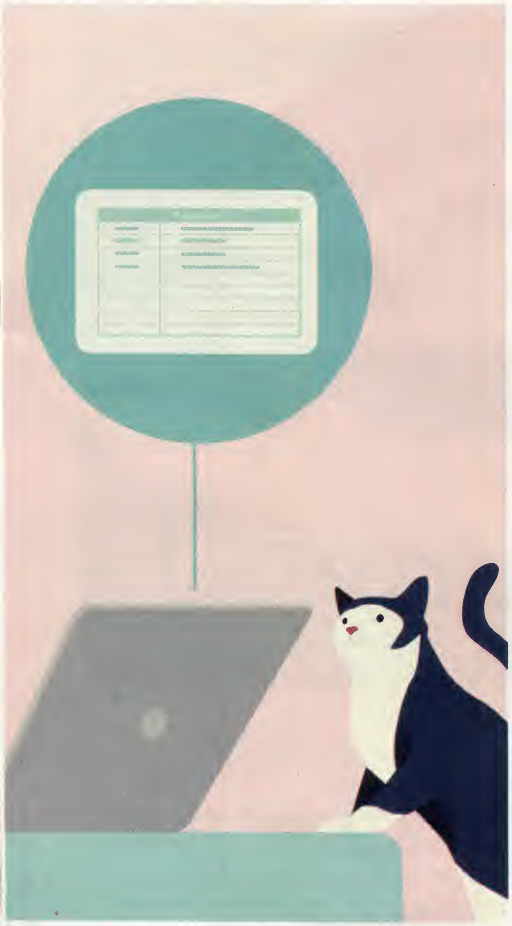
Dental care isn't covered by traditional Medicare (although some Medicare Advantage plans cover it) and can be a huge expense in retirement, says Diane Pearson, a CFP in Pittsburgh. She has had clients who paid $30,000 to have their teeth removed and replaced with implants. She's also seen clients spend more than $3,000 on hearing aids, which aren't covered by Medicare, either. Fidelity Investments estimates that 15% of your retirement income will go toward health care, and if you have a chronic illness or disability, the percentage could be much higher.

If you retire before age 65, the costs for health insurance premiums, along with deductibles, can be steep. You can stay on your employer's health insurance plan for up to 18 months under the federal law known as COBRA, but you'll have to pick up the entire premium, not just the percentage you paid as an employee. On the plus side, you'll be able to stay in the same provider network you had while you were working. Your human resources department can tell you how much you'll pay under COBRA; don't forget to factor in deductibles and other out-of-pocket costs.

Another option is to buy a policy through your state's health insurance exchange (search for your own state's options at www.healthcare.gov). These policies can be pricey, but the insurer can't turn you down because of preexisting conditions, and many retirees qualify for income-based tax credits.

## 5. Don't forget about taxes

The tax code offers some perks for seniors. If you're 65 or older, for



example, you can claim an additional $1,300 for your standard deduction in 2020 ($2,600 if you and your spouse are both 65 or older and file jointly) or an additional $1,650 if you're unmarried and not a surviving spouse. But if you factor in a precipitous drop in your tax bill, your budget could fall short. All of the pretax money you've dutifully socked away in traditional IRAs and 401(k) plans will be taxed at your ordinary income tax rate when you take it out. Most pensions are also funded with pretax income, so you'll pay taxes on that money at ordinary income tax rates, too, when you get your payments. Depending on your other income, a portion of your Social Security benefits may be taxed as well. And don't forget about state taxes. Some states exclude some or all of your retirement income from taxes (or have no income tax), but others tax everything, including Social Security benefits. See our state-by state guide to taxes on retirees at kiplinger.com/links/retireetaxmap for a rundown on your state's taxes (or a state you're considering moving to in retirement).

If, like most preretirees, you have a combination of taxable and tax-deferred accounts, it's worth sitting down with a financial planner or tax professional to discuss the most tax-efficient way to withdraw money from your various accounts. A tax pro can also help you come up with a realistic estimate of your federal, state and local tax bill.

## 6. Adjust for inflation

Many people have grown accustomed to low inflation over the past decade, but that could change. And even if the overall inflation rate remains low, health care expenses have historically risen much faster than the rate of inflation. When calculating cost of living, Pearson uses a 2% inflation rate for ordinary expenses but bumps it up to 10%—or even higher—for health care costs. Similarly, if you've purchased long-term-care insurance, you can expect your premiums to rise at a rate faster than inflation; some insurers have hiked premiums on policies purchased before 2005 by 50% or more. Insurers have done a better job of pricing more recent policies, but it's prudent to plan for an increase of about 20% every 10 years.

## 7. Don't forget an emergency fund

Numerous studies have shown that Americans fall short when it comes to putting aside money for emergencies. But keeping a well-funded rainy-day account is even more important once you retire, because you usually can't put in overtime (or ask the boss for a raise) to pay for major car repairs or a new roof. Bobbie Munroe, a CFP in Havana, Fla., advises her clients to put aside $200 to $300 a month, ideally in a separate account, for big-ticket items. "Even new tires can bust a budget," she says.

## 8. Expect changes in expenses as you age

During their go-go years, many retirees spend as much as they did before they retired, if not more. But once they reach their mid seventies (this will vary, of course, depending on health), many hit what Michael Stein refers to as the "slo-go" years—they're less active, which means they spend less, and may downsize to a condo or smaller home. Retirees spend less on food as they grow older, too, according

KipTip

## The Deferred Annuity Safety Net

Long-term-care insurance offers a way to avoid catastrophic expenses later in life. But if you're already in your sixties, you may have a hard time finding a policy that's affordable. One alternative that could provide income for late-life care is a deferred annuity, which provides guaranteed payments when you reach a certain age. Because of the risk that you'll die before you start collecting payouts, these annuities cost much less than immediate annuities.

For example, a 65-year-old man who invests $100,000 in an immediate annuity would receive $525 a month, according to Immediateannuities.com. But if he invested $100,000 in a deferred annuity that starts payments when he turns 80, he would receive about $1,750 a month. Deferred annuity payouts, like immediate annuity payouts, are tied to interest rates, so if you believe rates are going to rise, you may want to postpone investing.

You can invest up to 25% of your IRA or 401(k) plan (or $135,000, whichever is less) in a deferred-income annuity without having to take required minimum distributions on that money when you turn 70½.

to the Employee Benefit Research Institute. EBRI found that average annual spending on food for people age 65 to 74 was $4,400 to $4,900. Once they reached age 75, it fell to $3,700 to $4,000.

Unfortunately, that decline in spending doesn't last, because during your last years in retirement—what Stein sadly refers to as the "no-go" years—your expenses will likely rise to cover health care costs. If you need long-term care, those costs could rise precipitously.

## 9. Create a back-up plan

One way to assuage your fears that you'll run out of money is to buy an immediate annuity. With an immediate annuity, you give an insurance company a lump sum of money in exchange for a paycheck for the rest of your life, or for a specific period. Here's where your expense worksheet really comes in handy, because you can use it to estimate your regular monthly expenses (such as utilities, groceries and a mortgage, if you still have one) and buy an annuity to cover those costs. With those costs covered, you may feel more comfortable withdrawing money from your savings for travel and other non-discretionary items.

Unfortunately, this is not an optimal time to buy an immediate annuity. Payouts are tied to interest rates for 10-year Treasuries, which are historically low. You may want to wait until interest rates are higher to purchase an immediate annuity, or use a laddering strategy, which involves making smaller annuity purchases periodically—say, every three to five years. If interest rates rise, you'll capture them. Plus, the annuities you purchase in your later years will pay more no matter what happens because payouts are higher for older investors. To get an idea of how much you'll need to invest to get a specific monthly payment, go to www.immediateannuities.com.

Paying off your mortgage before you retire will also provide an extra layer of security. You won't have to worry about selling stocks or mutual funds during a downturn to make your monthly mortgage payment.

And don't forget about Social Security, which will provide you with a monthly check for the rest of your life, adjusted every year for inflation. You can claim benefits as early as 62, but that will reduce your payout by up to 30% compared with waiting until full retirement age (66 and 8 months for those turning 62 this year). For every year past your full retirement age that you delay claiming, your benefit grows by 8%. You can get an estimate of your benefits at www.ssa.gov/benefits/retirement/estimator.html. But whether you claim Social Security benefits now or later, you don't want them to be your only source of income.

## 10. Once you've retired, review your expenses once a year

That way you can determine whether you're spending more or less than you expected and adjust withdrawals from your savings accordingly. You can also adjust your projections to account for changes in your circumstances—a paid-off mortgage, for example, or a child who has moved out. If you spent less than you estimated, congratulate yourself and make a gift to charity, or start planning that cruise. ■

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# A BUDGET WORKSHEET FOR RETIREMENT

Use this worksheet to estimate your retirement expenses.

| BUDGET CATEGORIES | ONCE A YEAR | MONTHLY | WEEKLY | TOTAL ANNUAL |
|---|---|---|---|---|
| Mortgage payment (or rent) | $ | $ | $ | $ |
| Property taxes not included above | | | | |
| Home insurance not included above | | | | |
| House/yard maintenance | | | | |
| Utilities | | | | |
| Phone(s) | | | | |
| Cable TV | | | | |
| Internet | | | | |
| Car payments | | | | |
| Automobile insurance | | | | |
| Gasoline | | | | |
| Automobile maintenance and license | | | | |
| Other transportation costs | | | | |
| Taxes (withholding, etc.) | | | | |
| Health insurance (or Medicare) | | | | |
| Drugs & other essentials | | | | |
| Long-term-care insurance | | | | |
| Uninsured medical/dental | | | | |
| Life insurance | | | | |
| Umbrella liability insurance | | | | |
| Groceries | | | | |
| Restaurants | | | | |
| Clothing | | | | |
| Pet care | | | | |
| Vacation and travel | | | | |
| Entertainment and hobbies | | | | |
| Subscriptions and education | | | | |
| Gifts and charities | | | | |
| Support of others | | | | |
| Other discretionary items | | | | |
| SAVINGS | | | | |
| For emergency fund and short-term needs | | | | |
| For future major purchases | | | | |
| **TOTAL CASH OUTFLOWS** | $ | $ | $ | $ |

PRACTICE MAKES PERFECT

# Test-Drive Your Retirement

Before you quit your job, try out your new budget and your new lifestyle. BY ALINA TUGEND

**BEV BACHEL, 62, IS TRYING** retirement on for size. For years, Bachel, a freelance communications professional in Minneapolis, took on highly demanding contract jobs that typically lasted more than a year. She put in long hours, often managed other writers and had to be available for on-site meetings.

"A friend of mine said that when you're self-employed, you never really retire. You just wake up and realize all your clients are gone," she says. "I thought, Oh my God, I need to exert control instead of experiencing a slow decline into nothing."

So, two years ago, Bachel decided to cut down on big projects, travel extensively—including lengthy trips to Panama during the Minnesota winters—and take on work that she could do anywhere, anytime.

She also watched her savings decrease instead of increase. "I have 40 years of ingrained patterns and being rewarded for saving versus spending," she says. "Now I have to make a mental shift."

## HOW TO DO IT RIGHT

The idea of test-driving retirement—whether by cutting living expenses, staying for a few weeks at a potential retirement destination or hanging out at home for a week without work—makes sense to a lot of people. But it's not easy.

"Test-driving retirement gets more attention in the press than it does with clients," says Mari Adam, president of Adam Financial Associates, in Boca Raton, Fla. "I've had people do it in bits and pieces."

The classic way for a couple with two incomes to try out retirement is to start completely banking one income, Adam says. She advises them to practice living on that amount of money. "People getting ready to retire often have no idea what they really spend," Adam says. "They make up a number in their head." Figure out what you're realistically going to have coming in and going out, including Social Security and withdrawals from a retirement account or pension. (For advice on how to home in on a realistic number, see the accompanying story.)

For nearly two years, Fritz Gilbert and his wife, Jackie, lived on the income they expected to have in retirement. Gilbert retired on the young side—55—from his job as a global commodities trader in Atlanta. Jackie never worked outside the house, first raising their daughter, then caring for her mother, who suffered from Alzheimer's.

"We increased our savings, basically getting our net take-home pay down to what we expected to live on in retirement," says Gilbert, who writes the Retirement Manifesto blog.

CARLA RUIGH AND TERRY FEINBERG MOVED BACK TO CALIFORNIA AFTER DISCOVERING THEY DIDN'T LIKE THEIR NEW RETIREMENT LOCALE.

PHOTOGRAPH BY IAN TUTTLE

And a year before retirement, the couple decided to "track every penny we spent to get a baseline spending level," he says. "We'd never done that before, and it was a pain."

Gilbert, who says he may be more farsighted than most, mapped out as best as possible what their spending—from health care to travel—would look like over the next 40 years, year by year.

He and his wife also practiced staying at home for about 10 days. "Everyone focuses on finances. But once that's in place, the nonfinancial stuff is key to getting it right. The more we can do to think of the softer side of retirement, the better our retirement will be."

## THE RETIREMENT STAYCATION

Joe Casey, a managing partner for Retirement Wisdom, a retirement coaching service in Princeton, N.J., has advised several clients to try out retirement by taking one week of a month-long vacation to stay at home. "You need to slow down first," Casey says. "People have to set their expectations properly for a test-drive."

The idea isn't just to plop down on the couch in front of the TV, but to start figuring out how to structure your days if you aren't working full-time. For instance, what time should you get up? How much alone time should you have, and how much time doing things with others?

Of course, it's only a week. But in that time, some of his clients have realized they want to pursue interests they currently don't have time for, such as auditing classes. And they all recognized that not working leaves far more time to exercise and take care of themselves. The retirement rehearsal, Casey says, helps his clients shift "from fearing to anticipation."

## TRY OUT A NEW LOCATION

If your picture of retirement involves living somewhere warmer or quieter, don't commit to moving without first staying in the area for longer than a few weeks—perhaps in an Airbnb, VRBO or other short-term rental.

Terry Feinberg and his wife, Carla Ruigh, learned that lesson the hard way. Both are 62 years old. She is retired from her job as a municipal employee; he is semiretired from a career in marketing. They live in Gilroy, Calif., on two-and-a-half acres, and five years ago they faced a mini-disaster: The main water line from their well broke.

"We thought, What happens when we get to the point where we're no longer able or want to maintain this property?" Feinberg says. "We decided we needed to think about an exit strategy."

He and Ruigh love the desert and Southwest, so when he came across an ad for a brand-new 55-plus retirement community in Mesquite, Nev., it seemed ideal. They went out to look at the place "with zero intention of buying," says Feinberg. But they really liked what they saw, and a few days later they were the proud owners of a brand-new house on a quarter-acre lot.

They rented out their new house for the first three years, then moved to Mesquite in March 2018 and rented out their Gilroy place. That's when they realized that they should have spent a little more time in the desert and done a little more research.

"I looked at historical weather data but didn't go deep enough into how it would affect our lifestyle," Feinberg said. "It hit 110 degrees in June and didn't drop till late September. Often it wasn't below 90 at night."

It was so hot during the day that they had to start their biking and tennis around 5 A.M. And it was too hot at night to use their nice backyard or patio.

## LOOK INTO HEALTH CARE, TOO

The couple were also worried about their health care. Their HMO had recently changed its rules, and they could no longer use it after they moved to Nevada. Plus, they became concerned about the shortage of doctors in the Mesquite community and the lack of access to specialized care if they needed it.

So they put their new home on the market, reached an agreement with their Gilroy tenants for them to move out, and moved back to California. In the end, they came out fine financially, Feinberg says. But psychologically, the hard work of moving took its toll. They have no plans to move again in the foreseeable future.

"If I were to give advice to someone looking to make a significant geographic move, it would be to do it temporarily, if possible, so you can really understand what it's like to live there," he says. "Experience the weather and lifestyle before completely pulling up roots." ■

FOR QUESTIONS OR COMMENTS, PLEASE E-MAIL FEEDBACK@KIPLINGER.COM.

A KIPLINGER – PERSONAL CAPITAL POLL

# Reacting to Market Volatility

Americans who are saving for retirement are worried about market swings and potential downturns.

Many Americans saving for retirement are wary of stocks and have moved a significant portion of their money into cash. In the wake of future volatility for the stock market, they say they are willing to make more changes to their investments, make lifestyle compromises or delay retirement. Nearly half say the economy is slowing, nearly one-third believe the U.S. will be in a recession by the end of 2020, and more than one-third expect the market to decline during 2020. Plus, some four out of 10 respondents are checking their portfolio either daily or weekly.

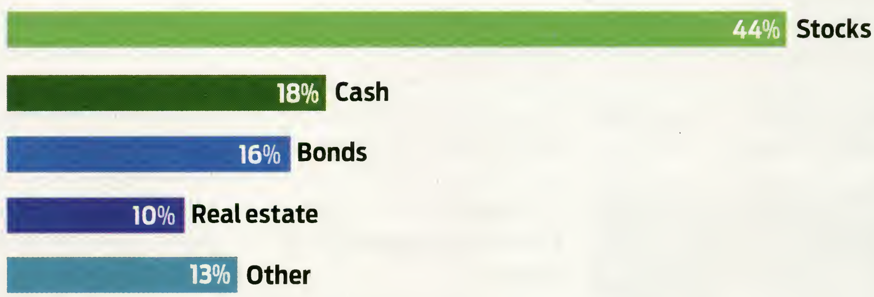
Those are a few of the conclusions of a new poll conducted by Kiplinger in partnership with the wealth management firm Personal Capital. We surveyed a national sampling of 850 preretirees age 40 and above who have at least $100,000 in household net worth (excluding a primary residence). Respondents were equally divided between men and women.

The median amount saved for retirement among all respondents is $513,100, but among respondents 60 or older, that figure jumps to $707,760. Those figures are still well short of the median amount they expect to need in retirement: about $1.23 million. Even so, more than two-thirds are very confident or somewhat confident that they have saved (or will save) enough for a comfortable retirement.

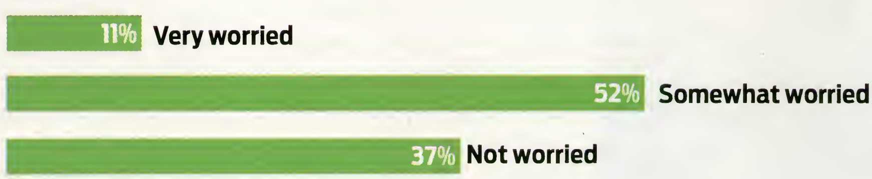
We've included highlights from the poll here. Figures are medians unless otherwise indicated.

## What is your asset allocation?

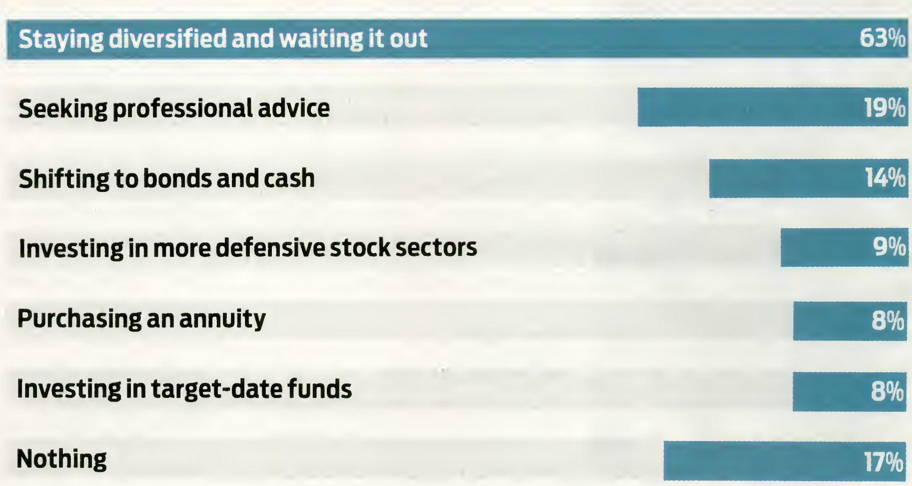
Respondents have a relatively low stock allocation and high levels of cash. In fact, they are holding more cash than bonds:




## How worried are you about stock market declines currently?




## What are you doing now to deal with stock market volatility?

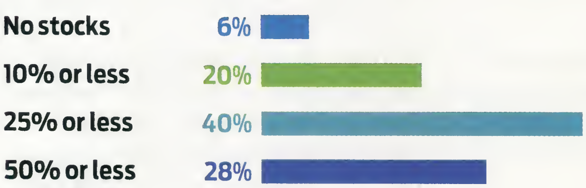




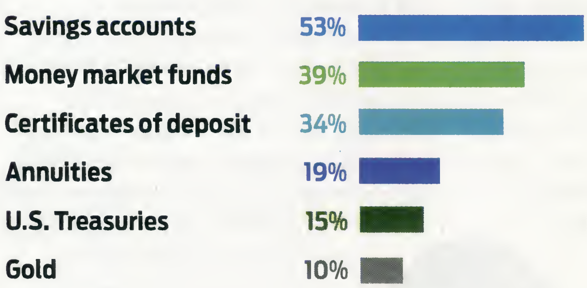

SOME PERCENTAGES DON'T ADD UP TO 100% DUE TO ROUNDING OR BECAUSE RESPONDENTS CHOSE ALL ANSWERS THAT WERE APPLICABLE.

## How low would you go in your allocation to stocks?

Nearly half of respondents would consider reducing investments in stocks to deal with market volatility. Here's how much they'd trim stock holdings:

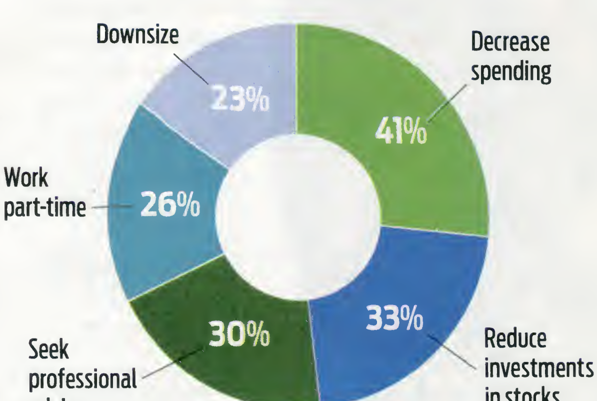



## Which of the following investments have you increased (or would you increase) in a volatile market?




# LOOKING AHEAD TO RETIREMENT

## What would you do to deal with market volatility during retirement? (top five)




# DELAYING RETIREMENT

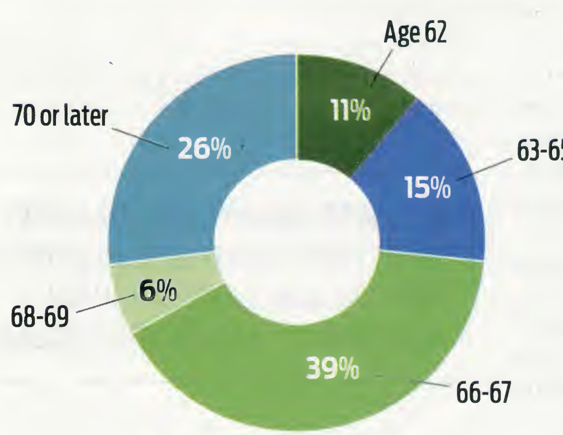
More than one-fourth (27%) said a downturn in the value of their investments would cause them to consider delaying retirement. Among those respondents, we asked:

## How much would your investments need to decline for you to consider delaying retirement?

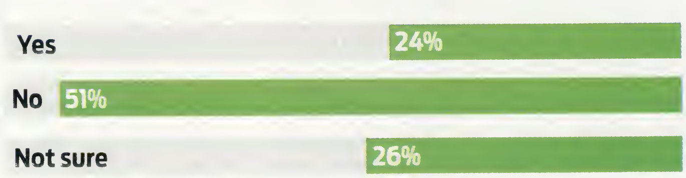

## How long would you be willing to delay retirement to give your investments time to recover?


# MARKET VOLATILITY AND SOCIAL SECURITY

## At what age do you plan to claim Social Security?




## Would you consider taking Social Security earlier than planned to give your portfolio time to recover from a downturn?




THIS SURVEY WAS CONDUCTED BY QUALTRICS BETWEEN OCTOBER 17 AND OCTOBER 21, 2019.

LIVING IN RETIREMENT | Janet Bodnar

# Make Time for a Retirement Checkup

One thing I've learned two-plus years into my retirement is that handling legal and financial affairs can be a full-time job. Dealing with Medicare, filing for Social Security, monitoring your investments, minimizing taxes, figuring out required minimum distributions, updating your estate plan and end-of-life wishes ... *yikes!*

Fortunately, *Kiplinger's* is around to help. But I was also intrigued recently when I received an invitation to the Smart Money Retirement Expo, presented by the investment management firm of Edelman Financial Engines, the Funding Our Future Coalition and radio station WMAL in Washington, D.C. It sounded like a good opportunity to make sure I'm checking the right boxes and see what needs attention. So I attended several sessions of particular interest to people already in retirement and came away with a number of useful reminders.

For example, in the session on generating retirement income, one observation came as a jolt. Even if you have, say, $1 million in savings, you'll probably have much less than that after paying taxes on withdrawals. Part of your Social Security income may also be taxable.

To account for the effect of taxes and inflation, Edelman advisers think you need a return of about 5%, yet the income you can generate from traditional income investments is at or near historic lows. The answer: a globally diversified portfolio. "Your first inclination in retirement is to become more conservative, so chances are you don't have as much money in stocks as you should," said company founder Ric Edelman. "That could be 30% to 40% rather than 10%."

**RETIREES ARE INCLINED TO INVEST MORE CONSERVATIVELY, SO CHANCES ARE YOU DON'T HAVE AS MUCH MONEY IN STOCKS AS YOU SHOULD.**

**Future shocks.** If I had to pick one key word from the discussion on estate planning, it would be beneficiaries. No matter what you say in your will, the proceeds from assets such as insurance policies and retirement accounts always go to the beneficiaries you've designated. So make sure you've named the people you want to name. If you have, say, named your adult children as primary beneficiaries of your life insurance, do you want your grandchildren to inherit the money if one of your children should predecease you?

Review your entire estate plan if it has been five years or more since you looked at the documents. Make sure your heirs have the passwords to digital assets, such as your photos or your library of e-books (see "Share Passwords With Your Spouse," July 2019). It's also a good idea to review your medical directive every few years to account for medical advances.

When it comes to long-term-care insurance, even if you're over 50, it may make sense to self-insure and save the money you would have paid in premiums. If you do decide to buy coverage, consider a hybrid policy that would provide a death benefit to your heirs if you don't use the money. And couples can purchase a pool of benefits that can be used by either spouse.

Already have a policy on which the premiums have been rising? It might be possible to reduce the cost by changing one of the features—buying less inflation protection or shortening the coverage period, for example. And you may be able to use money in your health savings account to pay long-term-care premiums. Whatever you decide, talk about it with your family members and go over the terms of the policy if you have one (see "Long-Term-Care Claims: Avoid the Obstacles," Dec. 2019).

I appreciated the advice Edelman gave the men in his audience when questioned about choosing a financial adviser: "Keep your spouse in mind," he said. Statistically, wives are likely to survive their husbands, so "make sure this is a family affair." ■

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# Credit Card Confidential

Knowing your card's mechanics can help you avoid high rates and fees. BY LISA GERSTNER

**YOU PROBABLY KNOW THAT YOUR CREDIT** card comes with an interest rate, a limit on how much you can spend and a minimum amount that you must pay each month. But if you're not familiar with the nuts and bolts of each card component, take a little time to brush up. Knowing the types of activities that trigger a cash advance, for example, could save you a bundle in interest and fees, and smart use of the grace period lets you finance a purchase interest-free for several weeks.

**Annual percentage rate (APR).** If you don't pay your statement balance in full by the payment due date, you'll accrue interest on the unpaid amount (unless your card is charging a 0% APR for an introductory period). Recently, the average rate ran about 17%, according to the Federal Reserve. But many cards come with a range of possible APRs, and the customers with the strongest credit histories capture the lowest rates.

Most credit cards have a variable rate, typically composed of the prime rate plus a "margin" of a set number of percentage points. Each time the Federal Reserve changes the federal funds rate, the prime rate moves in tandem. In the second half of 2019, the Fed cut rates three times, each cut one-fourth of a percentage point. As a result, many cardholders saw their APRs fall by a total of 0.75 point. When a variable APR changes because of an increase or decrease in the underlying index, the new rate applies both to existing balances and new purchases.

By law, card issuers generally can't bump up your APR the first year you have the card; after that, they have to provide 45 days' notice before raising it. (Increases resulting from a rising indexed rate or the expiration of a promotional period don't fall under those rules.) Such hikes affect only new purchases, not existing balances. If a bill payment is 60 days late or more, the issuer can raise the APR on your existing balance with 45 days' notice. But if you make timely payments for six months following the increase, the issuer must remove the penalty APR.

**Grace period.** Most cards offer an interest-free window on purchases between the time a billing cycle ends and the payment due date. The grace period must last at least 21 days. If you're planning to make a large purchase, consider doing so near the beginning of the billing cycle—that gives you nearly two months to pay it off without interest. If you're carrying a balance from month to month, the grace period disappears, and interest accrues immediately on new purchases.

**Minimum payment.** The minimum monthly payment is often the greater of 1% of the balance (plus interest and fees) or some flat amount—say, $25 or $35. Paying only the minimum may result in thousands of dollars in interest charges over time.

**Credit limit.** Your credit history, your income and the amount of credit available to you from other cards typically help determine the cap on your total balance. If you're new to using a credit card, the maximum may be only about $500 to $1,000 at first, says Kimberly Palmer, of personal-finance website NerdWallet. Over time, your issuer may periodically raise your limit, and eventually the maximum could reach tens of thousands of dollars.

A record of on-time payments and a growing income help boost your limit, so you may want to heed any prompts from your issuer to update your income; the reminders often show up by e-mail or when you log in to your account online. Notably, a card issuer may consider your spouse's or partner's income if you're 21 or older, even if he or she isn't named on the account and you don't earn income yourself.




ILLUSTRATION BY IKER AYESTARAN

You can also call your issuer and request a credit-limit increase. Even if you don't want to spend more on your card, a higher limit could boost your credit score if it will decrease your credit-utilization ratio—the amount of credit that you use as a percentage of your card limit.

**Balance transfer.** Some cards offer an attractive rate (often 0%) for a set period for balances you transfer from other credit cards. However, you may pay a fee of 3% to 5% of the amount you transfer. You can find exceptions: **CHASE SLATE** and **AMERICAN EXPRESS EVERYDAY** offer 0% interest for the first 15 months and levy no fee if you make the transfer within 60 days of opening the account. You'll still have to make a monthly minimum payment, and after the introductory period closes, you'll likely be charged a variable rate in the double digits. Or consider a card with a low fixed rate on transfers. Such cards are most commonly offered through credit unions, says Ted Rossman, of CreditCards.com.

**Cash advance.** A cash advance, which allows you to withdraw cash against your credit line, should be a last resort. It typically comes with a hefty fee that's the greater of about $10 or 3% to 5% of the amount withdrawn. And you'll be slapped with interest immediately, often at a rate that's much higher than your APR for purchases.

An ATM withdrawal with your credit card is only one way to incur a cash advance. If you use your card as a backup source of funds in case you overdraw your bank account, any overdraft transfer from your card will likely be regarded as a cash advance. If you write a convenience check—which your card issuer may send you in the mail to use much as you would a check tied to a bank account—the withdrawal will be considered a cash advance. If your card permits gambling transactions (many don't), such as for online gaming, they may be treated as cash advances, says Rossman.


**Fees, fees and more fees.** Choose and use your credit card carefully and you can dodge fees. *Annual fees* often come with cards that offer rich rewards in cash back, points or miles. The fees are commonly in the neighborhood of $100, although they can run much higher for premium cards. Some cards waive the fee for the first year of card membership. An annual fee may be worth paying if you reap enough in rewards and benefits. But you can find many generous rewards cards that don't have an annual fee.

Cards that carry a *foreign-transaction fee* ding you every time you use your card outside the U.S.—usually about 3% of the transaction amount. The number of cards that charge such fees is on the decline, and most travel-oriented rewards cards don't have them. Some issuers, including **CAPITAL ONE** and **DISCOVER**, omit the fee on all of their cards. If your card does have a foreign-transaction fee, avoid using it on a website based in another country. "You could be at home shopping in your pajamas and end up getting hit with a foreign-transaction fee," says Matt Schulz, of CompareCards.com.

A credit card's *late-payment fee* is limited by federal rules, and the cap is adjusted annually for inflation. In 2020, a card issuer may charge as much as $29 for the first violation and $40 for any subsequent late payments in the following six months. If you miss a payment, ask the issuer to waive the fee—there's a good chance you'll succeed if you've otherwise been a reliable customer. The **CITI SIMPLICITY** and **PENFED PROMISE** cards charge no late fee, and Discover doesn't levy the fee for the first late payment on any of its cards. ■

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MILLENNIAL MONEY | Ryan Ermey

# How to Pay for Pricey Prescriptions

Over the past several months, my eyes have been dry. And I'm not talking about a little scratchy here and there. It's more like no amount of sleep or Visine or time forgoing contact lenses can keep me from waking up looking like I spent the night with Cheech and Chong. So you can imagine the tears of joy I cried (or not) when the ophthalmologist wrote me a prescription for eyedrops that treat chronic dry eye. He told me the drug wasn't available as a generic, so it might be pricey, but handed me a coupon. "Pay as little as $5* a month," it said on the front. *Sold!*

I should have paid more attention to the asterisk. Because when I handed my prescription, along with my coupon, to the pharmacist, she told me I owed her $270 for my first month's worth of eyedrops. My coupon only entitled me to a $250 discount on a drug that cost an eye-watering (sorry) $520 per month.

**PAYING FOR EXPENSIVE MEDICATIONS IS ESPECIALLY PAINFUL IF YOU'RE IN A HIGH-DEDUCTIBLE PLAN.**

**Managing sticker shock.** I should take a moment to note that I'm enrolled in my company's high-deductible health plan, and my deductible is $1,500 (such plans must have a deductible of at least $1,350 for an individual and $2,700 for a family). But premiums are lower than they are for a preferred provider plan with a lower deductible. For me, a young, healthy person, the choice was simple. I have had infrequent and (usually) inexpensive medical costs. When I added the cost of my premiums to my out-of-pocket expenses, I came out way ahead.

High-deductible plans are growing in popularity. Nearly half of private-sector employees in the U.S. were enrolled in a high-deductible plan in 2018, up from 30% in 2013, according to data compiled by the State Health Access Data Assistance Center.

At the same time, "the cost of health care—especially for specialty drugs—has escalated dramatically," says Marcus Sredzinski, executive vice president of pharmacy at prescription savings program ScriptSave. To lower the cost of a pricey drug, Sredzinski says to first make sure all of your doctors have your medical history and a full list of the medications you're taking. "It could be your dry eyes are a side effect from a medication another doctor prescribed," he says.

Let your doctor know you're in a high-deductible plan and ask if there are cheaper alternatives to the prescribed drug. It may be that an expensive new drug is a combination of older, cheaper treatments, says NeedyMeds president Rich Sagall.

If there aren't cheaper alternatives, compare prices across pharmacies and find out whether coupons for certain prescriptions are available on sites such as WellRx.com and GoodRx.com. Talk to your pharmacist or prescribing physician to find out if the drug manufacturer offers a co-payment assistance program, like the $250 discount I got. Make sure you read the fine print, however. The discount may only apply to a certain number of refills, and you may only be able to apply the discounted rate toward your deductible, says Sredzinski.

Depending on the medication and your income, you may qualify for a patient assistance program offered by either the manufacturer or a private foundation. Search for your treatment at NeedyMeds.org to find out if a program supports the drug you were prescribed and where to apply. I was eligible to apply for the program from the manufacturer of my eyedrops.

I had to fax in an application, which included my insurance information and a copy of my W-2, and browbeat my doctor's office into completing an application form as well. Because my total cost for the drug exceeded a certain portion of my income, I qualified to receive the drug free. Now maybe I'll cry actual tears of joy. ■

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PRACTICAL PORTFOLIO | Nellie S. Huang

# When to Sell a Mutual Fund

Buy-and-hold is a great investing approach, but sometimes you just gotta let go.

**WHEN PEOPLE SAY "BREAKING UP IS HARD** to do," they're not talking about how difficult it is to say goodbye to a poorly performing investment. But knowing when to sell a fund that's gone astray is tricky, too. We're not talking about index funds; you either want exposure to a particular slice of the market or you don't, or you've found a cheaper option. But an actively managed fund poses a different set of questions. We've highlighted four traits that signal it may be time to sell. Any one of them might not be a sufficient cause to call it quits, but if a fund you hold has two or more of these qualities, you probably have reason to dump it.

**Returns are disappointing.** Poor performance shouldn't be an automatic trigger to boot a fund from your portfolio. Consider first why the fund is lagging. Is the slump tied to the manager's bad investment choices? Or is the lull a periodic time-out because the fund's investment style is out of favor? For example, funds with a focus on discount-priced stocks have lagged in recent years compared with funds that invest in fast-growing firms. But that isn't always the case.

However, if a fund consistently struggles to keep up with its peers on a year-to-year basis, it's time to look for alternatives, says Todd Rosenbluth, head of exchange-traded funds and mutual fund research at CFRA. Keep the manager's tenure at the fund in mind. If he or she has been at the helm for only five years, it makes little sense to scrutinize the fund's 10-year record.

Give a manager some leeway; even the best ones stumble for a time. But if short-term sluggishness starts to drag


ISTOCKPHOTO.COM

down a fund's long-term returns, it's time to cut and run. That's a sign of sustained underperformance. Lew Altfest of Altfest Personal Wealth Management in New York, says he starts to get "very concerned" after a fund lags for two consecutive years. And if underperformance continues through a third year, "there's a good chance we'll be getting out," he says.

**A manager leaves.** When a key manager quits or retires, it's a "red flag," says Rosenbluth, because the new honcho may shift strategies or sell chunks of the portfolio. At the very least, be prepared for a period of growing pains when a new manager arrives. Challenges can come in the form of lackluster returns or big capital-gains distributions as the new manager reshapes the portfolio. In mid 2018, after Harbor International lagged its benchmark five consecutive calendar years, a new manager took over. That December, shareholders received a whopping capital-gains distribution that was equivalent to roughly 38% of the fund's net asset value at the time.

**Assets explode.** The bigger a fund gets, the less nimble it can be and that can hurt returns. Small-company stock funds and concentrated funds, which tend to hold fewer than 30 stocks, can be particularly sensitive to asset bloat. The third-biggest small-company stock fund in the country, Vanguard Explorer, has $16 billion in assets. It has lagged its benchmark, the Russell 2500 Growth index of growing small-to-midsize companies, in seven of the past 10 calendar years, and it trailed the index over the first 11 months of 2019, too. But large-company funds have fallen victim to asset bloat, too. The legendary Fidelity Magellan is a classic example. As assets topped $100 billion in 2000, the fund's performance relative to Standard & Poor's 500-stock index deteriorated.

**The fund's job changes.** David Mendels, an adviser with Creative Financial Concepts, says he views fund analysis as a job-performance evaluation. "I'm hiring a manager to do a job," he says—to invest in small-company stocks, say, or real estate investment trusts.

But funds can change over time. Fidelity Low-Priced Stock, once a U.S. stock fund, currently has more than a third of its assets invested in foreign stocks. It's a solid performer and may be worth keeping. But a big shift in holdings should be a wake-up call to rethink how a fund fits into your overall portfolio and whether you need to make any adjustments. "That's where I'd say, 'You're no longer doing what I hired you to do,' " says Mendels. "You're outta here." ■

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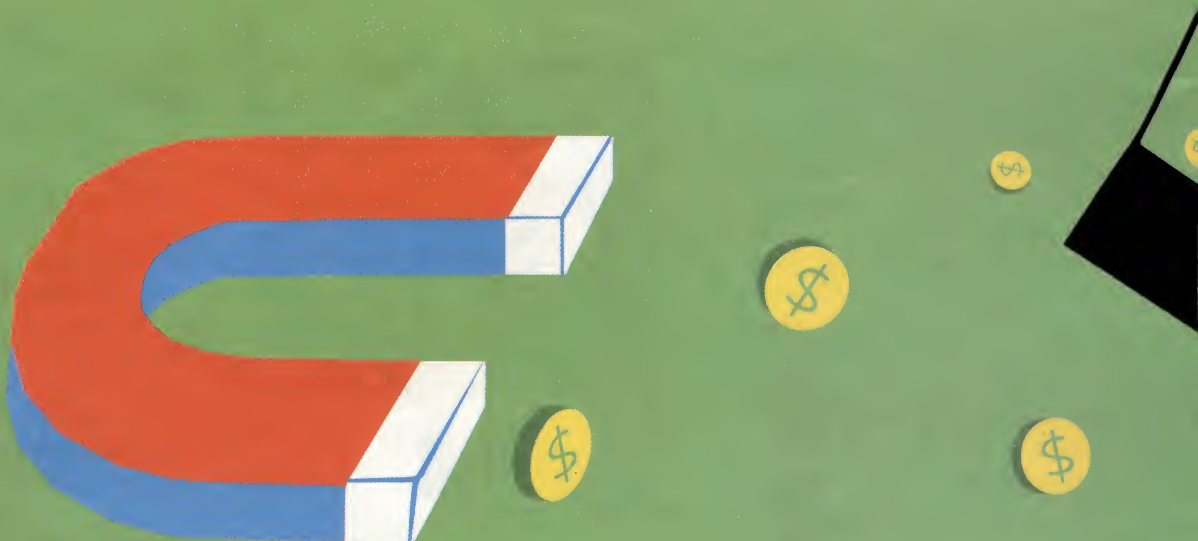
REWARDS



# HOW TO BEAT PESKY FEES

Fight the annoying charges that companies extract for everything from travel to investing to home buying. **BY LISA GERSTNER**

ILLUSTRATIONS BY LAURA LIEDO

**NO MATTER HOW** much you try to swat them away, pesky fees keep nibbling at your travel bookings, wireless plans, bank accounts, investments and pretty much every other part of your financial life. Although the fees may not seem like much on their own, they can add up to hundreds or even thousands of dollars a year, putting a big dent in your wallet.

Here, we've listed common fees in five categories, plus ways to eliminate or reduce them. Some of the fees are legitimate—professionals such as investment advisers and real estate brokers deserve compensation, after all. But if you're overpaying for a service, you can make moves to tug down the rate. And with some preparation and knowledge, you can wipe out the most irritating charges.

# TRAVEL

## Airline seat-selection fees

**Typical amount:** About $5 to $40 per seat—but the most-coveted seats may cost you even more

**How to beat them:** If you let the airline assign you a seat, you won't pay a fee. Beyond that, the best way to sidestep a seat-selection fee depends on the reason it's being charged. If you have a basic-economy ticket, you'll pay a fee to choose any seat—or you may not have the option to pick a seat at all. Booking a ticket in a higher-level fare class may be worthwhile if, say, you want to sit near travel companions or if extra legroom is nonnegotiable. With a standard ticket, you'll choose from the widest selection of free seats if you book months in advance. But the earlier you book, the more likely your itinerary will undergo a scheduling or aircraft change, so it's wise to review your reservation online periodically and to update your seat choice if the airline notifies you of a change, says Scott Mayerowitz, of travel website The Points Guy. If you have elite status with an airline, you'll likely get a desirable seat at no extra charge even if you book at the last minute.

Southwest Airlines doesn't charge seat-selection fees and lets passengers choose their seats as they board. But the airline assigns your place in line based on when you check in, so the farther back you are, the less likely you'll get the seat you want. (The EarlyBird boarding fee of $15 to $25 per flight gives you priority.) Check in to your flight online as early as possible to help boost your boarding position.

## Airline baggage fees

**Typical amount:** $30 for the first checked bag and $40 for the second with major U.S. airlines

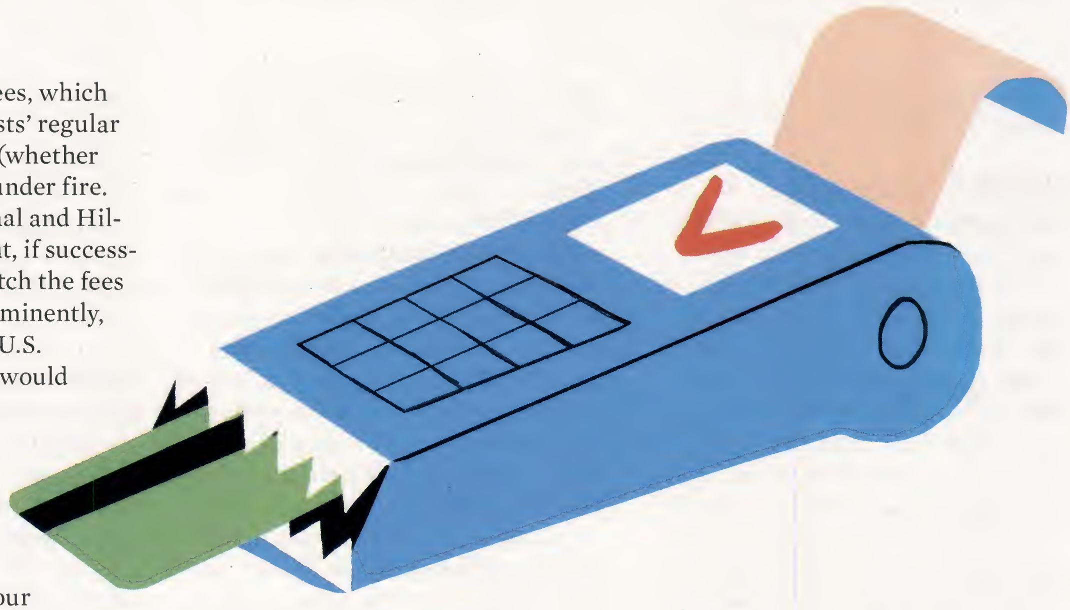
**How to beat them:** If you regularly fly with a certain airline, consider opening one of its credit cards. The Citi/AAdvantage Platinum Select card ($99 annual fee, waived the first year), United Explorer card ($95, waived the first year) and Gold Delta SkyMiles card ($99, waived the first year) offer the first checked bag free on their respective airlines. Plus, at least one of the cardholder's travel companions on the reservation gets a free bag, too. Ordinarily, if you and a travel companion both check a bag on a round-trip flight, you'll pay a total $120 in baggage fees—or more than the annual fee on any of those cards. Southwest Airlines passengers can check two bags free of charge.

Generally, carry-on bags are free with the biggest U.S. airlines. But note that if you have a basic economy ticket with United, you may be charged a checked-bag fee plus a $25 "gate handling charge" if you bring a full-size carry-on bag to the gate. Discount carriers such as Frontier and Spirit charge for carry-on bags, and the fees are often lowest if you pay them when you book. Plus, you may pay more to take a bag into the cabin than to check it. For a mid-February flight from Atlanta to New York City, for example, Spirit recently charged $33 if you paid for a carry-on bag when reserving your flight but $28 for a checked bag.

## Hotel resort fees

**Typical amount:** About $23 per day, according to ResortFeeChecker.com

**How to beat them:** Resort fees, which some hotels add on to guests' regular nightly rate for amenities (whether or not you use them), are under fire. Both Marriott International and Hilton are facing lawsuits that, if successful, may cause hotels to ditch the fees or disclose them more prominently, and a bill proposed in the U.S. House of Representatives would require the fees to be included in a hotel's advertised price. At ResortFeeChecker .com, you can look up hotels to see how much they charge. Try asking your hotel to waive the fee; if you don't plan to use its amenities or if, say, the gym is closed for repairs, you may be able to make a case. Certain chains, including Hilton and Hyatt, typically charge no resort fee when you book a room with rewards points.



## WIRELESS PLANS

### Activation and upgrade fees

**Typical amount:** $20 to $40
**How to beat them:** When you start a new line of service with a wireless carrier or upgrade to a new phone with your current provider, you may be charged a fee for it. An activation fee is sometimes avoidable by switching to a new carrier during a promotional period in which it waives the fee. And some carriers reduce or eliminate the fee if you upgrade your device online. Verizon Wireless, for example, cuts its $40 fee to $20 if you upgrade online or through the Verizon app, and you'll pay no fee if you buy an unlocked phone and use your previous device's SIM card. T-Mobile doesn't charge its $20 "assisted support" fee if you upgrade your phone online or through T-Mobile's app.

### International roaming and data charges

**Typical amount:** About $2 for each megabyte of data used, 25 cents to 50 cents for text messages sent and 25 cents to $3 per minute for calls
**How to beat them:** Heading out of the country without first tweaking your wireless plan could result in painful surcharges. "If you're using your phone as you regularly do at home, your daily cost could be upward of $100," says Tina Chang, of WhistleOut, a website that compares phone plans. Check out your carrier's international packages if you intend to use your phone frequently while overseas. Verizon and AT&T both offer add-ons that allow you to access your regular domestic plan in more than 100 countries for an extra $10 per day that you use your phone while you're overseas.

If you travel abroad often, consider a plan that includes international services. Some T-Mobile and Sprint plans include text messages, low-speed data and calls for 25 cents per minute, and you can add passes for high-speed data. Sprint, for example, charges $5 per day or $25 per week for high-speed data in most international destinations.

### Miscellaneous fees

**Typical amount:** A few dollars per month
**How to beat them:** Keep an eye on your wireless bill for services that you don't want or never requested. Verizon, for example, offers new customers a free trial of its cloud storage service for 30 days, then charges $5 per month if you don't cancel the subscription before the trial ends. Verizon customers who activate a new Android device also get 30 free days of premium visual voicemail service, which comes with a $3 monthly fee if you don't unsubscribe after the free period.

## BANKING

### ATM surcharges

**Typical amount:** An average of $4.72 in combined charges from the withdrawer's bank as well as from the ATM operator, according to Bankrate.com
**How to beat them:** A recent survey of consumers conducted by personal finance site MagnifyMoney found that ATM surcharges were the most hated of any kind of fee. You can avoid them by selecting a checking account that charges no fee when you use an out-of-network ATM and that reimburses the fees that ATM owners charge. Premium accounts from large banks often refund ATM fees (you'll likely have to carry a high minimum balance to qualify), and so do some free online checking accounts. Or pick a bank that participates in a large ATM network. With Ally Bank's checking account, you can access more than 43,000 U.S. ATMs in the Allpoint network fee-free, and you'll be refunded up to $10 monthly in out-of-network fees.

Another idea: When you use your debit card for a purchase at a store, ask for cash back. But be aware that a few

stores, including Kroger and Harris Teeter, may charge a fee.

### Monthly maintenance fees

**Typical amount:** An average of $15.05 for interest-bearing accounts and $5.61 for non-interest-bearing accounts, according to Bankrate.com
**How to beat them:** Most checking accounts waive the monthly fee if you keep a minimum balance or have a direct deposit or regular transfer. That may be worthwhile if you prefer banking with big institutions, which usually impose such requirements, or you keep enough in your checking account that meeting a minimum is of little concern. Otherwise, look for free checking—accounts from several online banks, including Ally Bank Interest Checking and Capital One 360 Checking, charge no monthly fee. (For more on attractive no-fee accounts, see "Free Checking With Benefits," Jan.)

### Overdraft fees

**Typical amount:** An average of $33.36, according to Bankrate.com
**How to beat them:** If you're enrolled in a service through which your bank covers any overdraft of your checking account, you may be hit with a stiff fee for each transaction that dips below your account balance. Many institutions let you link your checking account to a savings account (or other backup source of funds) and will automatically transfer money to checking if you overdraw your account—typically free or at a lower charge than for a standard overdraft. Or you could opt out of overdraft protection, and your debit card will be declined at the register if your checking account is short on funds—though you could still be charged an insufficient-funds fee for electronic transfers or checks that exceed your account balance.

## INVESTING

### Asset-management fees

**Typical amount:** About 1% of your investment balance
**How to beat them:** If you're paying a professional a percentage of your assets under management, consider whether a different payment structure may be more appropriate and less costly. If you're looking for less emphasis on investment advice and more of a focus on general financial-planning guidance, such as determining when to take Social Security or how to balance college and retirement savings, you may benefit from paying an adviser a subscription or hourly fee, says Christine Benz, director of personal finance for Morningstar. Such fees may also make sense if you consult your adviser infrequently. Advisers in the Garrett Planning Network (https://garrettplanningnetwork.com) offer services on an hourly basis and typically charge about $180 to $300 per hour.

Or consider switching to a robo adviser, which usually provides basic, automated investment advice, including how to best allocate your portfolio. Some robo advisers offer optional assistance from a human, too. Betterment, for example, charges a 0.25% annual fee for its basic Digital service or 0.40% to get phone access to an adviser with its Premium plan (which requires a $100,000 minimum investment). For more on robo advisers, see page 18.

### Expense ratios

**Typical amount:** An average of 0.48%, according to Morningstar
**How to beat them:** A mutual fund's expense ratio represents the amount of your investment that goes toward operating expenses. Many actively managed funds charge well above the average. If you made an initial investment of $10,000 in a fund that charges 1%, contributed $1,000 a year to it and earned a 6% rate of return, you'd pay about $20,000 more in fees over 30 years than if you chose a fund with a 0.25% expense ratio. On a positive note, the average asset-weighted expense ratio, which approximates how much investors actually pay rather than what funds charge, has dropped every year since Morningstar started tracking it in 2000. The reason: competition from the plethora of index mutual funds and exchange-traded funds. "Index funds and ETFs are your friends if you're looking to lower your portfolio's total cost," and you can easily assemble a well-diversified portfolio with fees of 0.1% or less per year, says Benz.

Some fund companies charge less than others, too. In the Morningstar survey, Vanguard had the lowest expense ratio, followed by State Street and BlackRock/iShares. If you prefer actively managed funds, check out the list of our favorite no-load mutual funds—which includes many options with low-to-below-average fees—at kiplinger.com/links/kiplinger25.

## HOME

### Agent commissions

**Typical amount:** 5% to 6% of a home's sale price

**How to beat them:** When you sell a home, you typically pay a commission to your listing agent, who splits it with the buyer's agent—3% of the sale price to each agent is a common structure. Although 73% of agents surveyed by the Consumer Federation of America said they will not negotiate on commission, it's worth asking your agent whether he or she will cut you a break. In the survey, 17% of agents said they would drop the commission by a percentage point or two if they also found a buyer for the home. Or, if your listing agent is also representing you as a buyer, he or she stands to collect a commission from both transactions and may be willing to reduce the fee.

Agents also tend to be more amenable to a lower commission if you have a turnkey home that is likely to sell quickly, says Sarah Hood, managing broker for UpNest, a website on which agents compete for business from home buyers and sellers. When agents make proposals to sellers through UpNest, they often cut their standard commissions by about one-half of a percentage point to two points, says Hood. If you successfully negotiate a lower commission, check whether your agent is reducing the share for the buyer's agent; if that's the case, buyer's agents may be less inclined to show clients your home.

Alternatively, consider brokerage Redfin, which charges a listing fee of 1.5% of the sale price, or 1% if you also buy a home with Redfin. (Sellers also pay a commission to the buyer's agent—usually 2.5% to 3%.) You work with a Redfin agent, who is paid with a salary and bonuses rather than on commission. If you purchase a home through Redfin, in most states you get a refund on a portion of the buyer commission—an average of $1,700. Similarly, UpNest offers a buyer refund, which is typically 10% to 40% of the buyer's agent commission, says Hood.

### Closing costs

**Typical amount:** 2% to 6% of a home's sale price

**How to beat them:** A home sale comes with a collection of fees known as closing costs. Many of them are associated with taking out a mortgage, so buyers usually shoulder the bulk of the costs. Focus first on securing the lowest interest rate possible—in the long run, that will have the greatest impact. Then look over the fees. Within three business days after you apply for a mortgage, the lender must provide a document listing estimated closing costs. Check for so-called junk fees from the lender, which may include charges for application, loan processing, document preparation or underwriting. Ask your lender to explain each fee and see whether he or she will remove or reduce any that seem redundant or excessive. Citing lower closing costs from another lender may also persuade the lender to reduce such fees.

### Title insurance

**Typical amount:** An average total of nearly $1,400, according to ValuePenguin

**How to beat it:** Title insurance, which involves a one-time fee and offers protection from future claims against a home, is part of the package of closing costs. But it's worth singling out because it's one of the biggest expenses, and you can usually pick the provider.

Title insurance comes in two forms: a policy for the mortgage lender, for which the home buyer pays the fee, and a homeowner's policy, which may be paid for by the buyer or seller or divided between the two, depending on the state. The lender's policy protects its interest from claims against the property, and the owner's policy protects you.

Regulators in some states, including Florida, New Mexico and Texas, require all title companies to charge the same rate for title insurance, says Jeremy Yohe, of the American Land Title Association. But in other states, you may save by comparing services—up to $500, according to the Consumer Financial Protection Bureau. At www.homeclosing101.org, click on "Find a Company" to search for title insurers in your area. ■

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TECH

# Create a Digital Estate Plan

Think about what will happen with your online accounts after you die.

**IN OUR INCREASINGLY DIGITAL** age, much of our social and financial lives are played out in the ether. That means that our digital footprints will eventually outlive us, leaving family and estate executors to sift through the virtual remains—photos and videos, social media accounts, subscriptions, online bills—to access items of financial and personal value, pay final bills, and close accounts.

What happens to your online accounts after you die depends on the laws in your state, the types of accounts involved and the terms of service governing the accounts. An executor does not automatically gain access to the accounts unless the deceased person has made specific arrangements. And heirs often find that they don't have clear authority to access or manage a family member's accounts. But with a few simple steps, you can increase the odds that your digital footprint will be handled according to your wishes.

**Make an inventory.** You'll need to make a list of what you have, name someone to act on your behalf, and provide your designee with access and instructions. Start by creating an inventory of your digital assets, including all of your online accounts. "You don't have to make arrangements for every account, but it's worth putting thought into which ones are important to you so you can make sure people you care about have (or don't have) access," says Betsy Hannibal, senior legal editor for estate planning at Nolo, the publisher of consumer legal guides. As you create a list of the accounts and their passwords, note your wishes or instructions for any you would like handled in a specific way. For example, you may request that your social media accounts be deleted or that digital photos stored in the cloud be shared with specific people.

But despite your best efforts, complications may still arise. "Providing a list for a trusted person can be a precarious way to provide access to your accounts," says Sharon Hartung, author of *Your Digital Undertaker.* Passwords expire, people forget to update their lists, and many sites require two-factor authentication that could go to a cell phone or e-mail address that is no longer accessible, she says. Or a website's terms of service agreement may prohibit anyone other than the original user from accessing the account. Many sites delete accounts upon receiving notice that a user has died.

**Solving the glitches.** In recent years, most states have adopted the Revised Uniform Fiduciary Access to Digital Assets Act, which allows you to designate a legal representative to access your digital assets after death. You can provide that access through a will, power of attorney or trust, but you will need to update your documents and work with an estate planner so your plans conform with the law.

A small but growing number of online services have started to offer users a way to allow access to their accounts after they die. Facebook, for example, allows users to have their accounts deleted upon death or to designate a digital heir with the right to manage portions of the account, which will be turned into a memorial page. (Visit the general account settings page and select "Memorialization Settings.")

Google will let you select up to 10 trusted contacts who can access your Gmail, photos and more if your account is inactive for several months. So far, other services have been slow to roll out such features, but more will likely create their own tools, says Nolo's Hannibal. Even so, she says, the feature may be buried in the settings menu.

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DAVIDE BONAZZI

DRIVE TIME

# Minivans: What's Not to Like?

The minivan has been unfairly displaced by the three-row SUV as the family hauler of choice. BY DAVID MUHLBAUM

**WE WERE ON OUR WAY TO PEAK MINIVAN** in 1995 when, in the comedic thriller *Get Shorty,* John Travolta's character Chili Palmer kept passing off his rental Oldsmobile Silhouette as the "Cadillac of minivans" (probably the movie's most memorable line). Back then, just about every major American and Japanese carmaker offered a minivan. Even the final iteration of the Volkswagen bus was still sold here.

Twenty-five years later, you need only one hand to count the minivans on the market in the U.S. Why? Demographic shifts, in part. But mostly, the decline stems from the emergence of three-row SUVs. Minivan sales have been dwindling for decades as drivers ditch the symbol of suburban surrender, the automotive equivalent of drawstring sweatpants, for something they like to call their "truck."

But having spent Thanksgiving week hauling my extended family around town in a 2020 **Honda Odyssey** (MSRP $34,690, EX trim), I am again reminded that when it comes to putting a lot of humanoids in a box, you just can't beat a minivan. Most of the credit goes to the sliding doors. The ability to not just unlock but *open* these giant access ports remotely is huge. While still fussing with locking up the house, I could pop open the doors and let the nieces and nephews scramble into the back row, as the elder generation followed into the middle row with far less acrobatics (and grumbling) than when entering any vehicle in my own fleet (which, yes, includes a big three-row SUV).

My friend Jody Danforth Root, who considers herself a big van fan, notes another plus. "My van's sliding doors meant there was never a wind gust or thoughtless kid that blew the door open, dented the car next to us, and left me paying for someone's body work," as happened with her other vehicle, a GMC Yukon Denali, a big ol' SUV.

The minivan's other main advantage (again, over three-row SUVs) is that the third row is bigger, with room enough for average-size adults, even. Honda's largest SUV, the Pilot ($34,430, EX trim), provides a good point of comparison. The Odyssey and Pilot share considerable DNA, use the same engine and are built in the same Alabama factory. But for a small increase in overall length (7 inches), the Odyssey provides a significantly more commodious third row, with more leg, shoulder and hip room—though the Pilot does offer an extra half-inch or so of headroom. If you expect to shuttle kids until they can drive places on their own, remember that 15-year-olds can get pretty big. And a minivan's cargo space is much bigger—with the seats up or down—because it uses its overall height for interior volume, while an equivalent SUV needs that space for big tires, ground clearance and long-travel suspension to provide a modicum of off-road ability.

Whoever gets the back row should be fairly content: Most Odysseys offer not just cup holders and vents, but also power outlets. Should squabbling break out in back anyway, the Touring and Elite versions of the Odyssey let you actually see what the miscreants are up to via Honda's Cabin Watch system—an overhead camera that covers the back two rows and displays the image on the dashboard's main screen. It even has a mode that works in the dark (a feature that borders on creepy).

Is looking at the screen safer than turning your head around and threatening to PULL OVER RIGHT NOW? Perhaps. And, if the passengers happen to be wearing the wireless headphones that come with the Odyssey's highest trims, you can push another

COURTESY HONDA

NO SUV ON THE PLANET PROVIDES EASIER ACCESS TO THE INTERIOR THAN A HONDA ODYSSEY DOES.

button to interrupt the sound and yell at them right through the headphones.

**I'm uncool, and I know it.** So, what's not to like? That image problem. It runs deep. To go back to the movies: When undercover cop/master car racer Brian O'Conner (Paul Walker) becomes domesticated in *Furious 7,* what do the filmmakers put him in to take the kid to school? A blue Chrysler Town & Country. And he can't find the door switch. Plenty of women, too, are anti-van. I know, because I'm married to one. It's not just that my wife would never be caught dead driving one; she thinks less of me for liking them.

That attitude is reflected in sales. Looking back 15 years, the market share of minivans has been roughly cut in half, as buyers have defected to the ever-expanding array of SUVs. Will the minivan follow the station wagon to extinction in the U.S.? Jessica Caldwell, executive director of industry insights at Edmunds.com, doesn't think so. She sees the market share hitting a floor of about 2%—a niche, but one with a huge degree of loyalty. "Because it's culturally not cool to have a minivan, people feel obliged to defend their decision to go minivan," Caldwell said.

The Odyssey I drove is one of only four (or maybe five) minivans you can buy today. Back when *Kiplinger's* was handing out a variety of annual awards, including Minivan of the Year, the Odyssey was the most common winner, and I think it still owns that spot, in part because Honda did a significant redesign in 2018.

**The rest of the field.** The number-two van, then and now, is the **Toyota Sienna** ($34,385, LE trim). The Sienna has been left largely untouched since 2011, though a redesign is expected with the 2021 model. As a result, it trails the Odyssey (and others) in the demanding safety tests performed by the Insurance Institute for Highway Safety. But the Sienna can claim a significant niche-inside-a-niche: It's available with all-wheel drive, which takes out one of the main reasons people claim they need an SUV. (Minivans, of course, are strictly on-road vehicles, but equipped with winter tires, they might be a safer bet overall in the snow than an all-wheel-drive SUV with all-season tires. See "Get a Grip on Winter Roads," Dec.)

Fiat Chrysler, which got the minivan party started in 1984 with the Plymouth Voyager/Dodge Caravan twins, has been playing a curious game: In 2016, it introduced the **Chrysler Pacifica** ($33,745, Touring), an all-new design that replaced the long-in-the-tooth Town & Country. However, it has kept a variant of the older model in production as the **Dodge Grand Caravan**, ($27,040 for a 2019 SE model; 2020 pricing hadn't been announced at press time), mostly to satisfy fleet sales, according to Edmunds' Caldwell.

Chrysler also owns its own niche-within-a-niche: You can buy the **Pacifica Hybrid** ($39,995, Touring), a plug-in model that can drive up to 33 miles on electric power with a full charge. Further complicating the situation: For 2020, Chrysler is offering a **Chrysler Voyager** ($26,985, L). It's basically a low-trim (cloth seats and steel wheels) version of the Pacifica.

And then there's the slow-selling **Kia Sedona** ($33,500, EX), whose most distinctive feature is its styling. The stepped-up third side window and long, low nose evoke a large crossover. But the sliding-door handles still give it away. Sedonas depreciate quickly, so they're best bought used. ■

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TAKEAWAY

# Get a Dividend Every Month

Most U.S. companies that pay dividends do it quarterly, or once every 90 days or so. But if you want a regular stream of income throughout the year, consider our Dividend-a-Month portfolio, a group of excellent dividend-paying stocks with staggered pay dates. You'll receive a monthly check, which comes in handy when you need to pay your bills.


**JANUARY** Illinois Tool Works (symbol ITW), $174, yield 2.5%, 5-year dividend growth rate of 17.2%.

**FEBRUARY** Valero Energy (VLO), $95, yield 3.8%, 5-year dividend growth rate of 26.8%

**MARCH** Intel (INTC), $58, yield 2.2%, 5-year dividend growth rate of 7.0%

**APRIL** McCormick (MKC), $169, yield 1.5%, 5-year dividend growth rate of 10.9%

**MAY** CVS Health (CVS), $75, yield 2.7%, 5-year dividend growth rate of 12.7%

**JUNE** WisdomTree MidCap (DON), $38, yield 2.6%, 5-year dividend growth rate not available

**JULY** JPMorgan Chase (JPM), $132, yield 2.7%, 5-year dividend growth rate of 17.6%

**AUGUST** Realty Income (O), $77, yield 3.5%, 5-year dividend growth rate of 4.4%

**SEPTEMBER** Johnson & Johnson (JNJ), $137, yield 2.8%, 5-year dividend growth rate of 6.3%

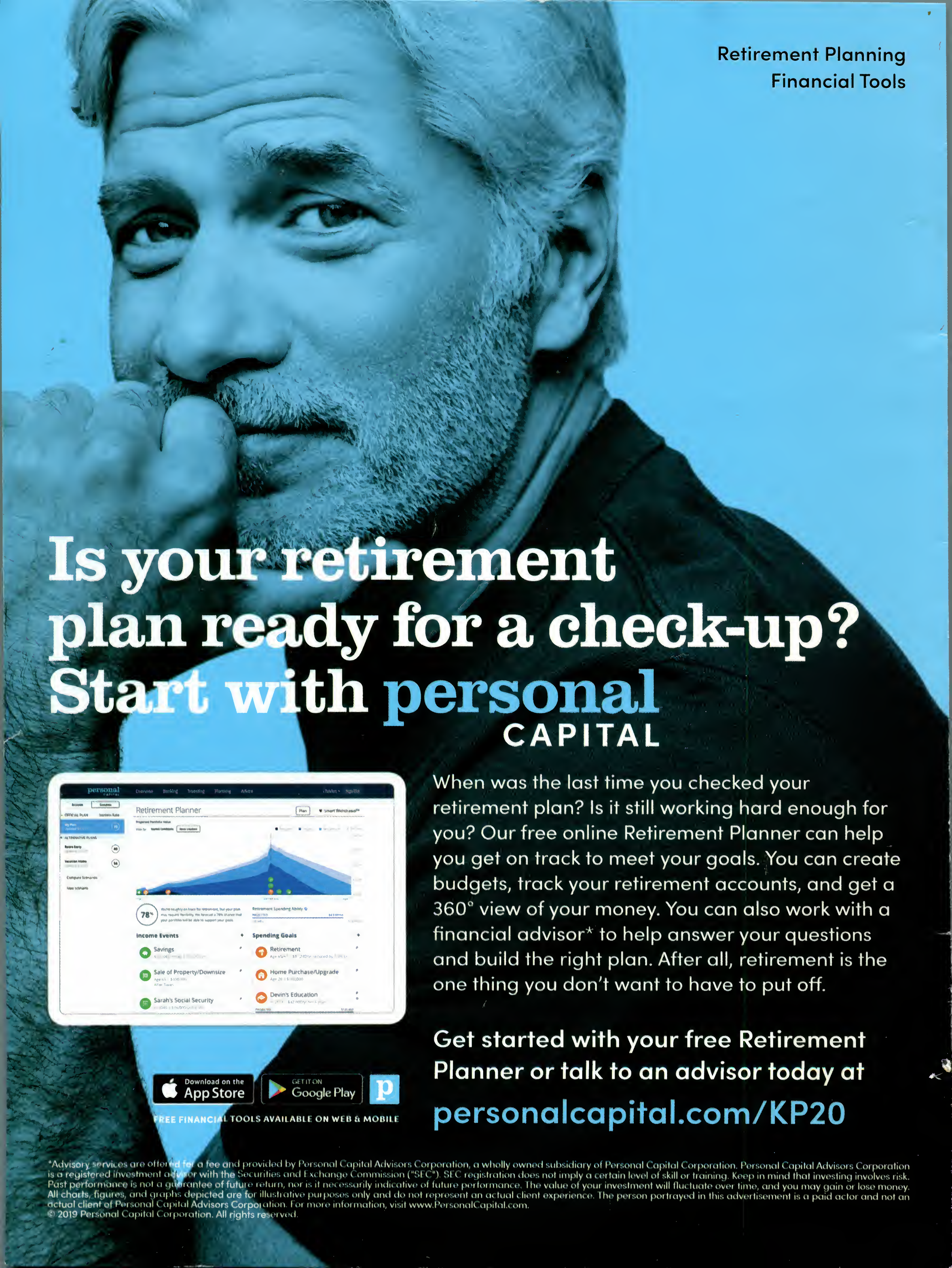
**OCTOBER** Automatic Data Processing (ADP) $171, yield 2.1%, 5-year dividend growth rate of 13.2%

**NOVEMBER** General Dynamics (GD), $182, yield 2.2%, 5-year dividend growth rate of 10.5%

**DECEMBER** American Electric Power (AEP), $91, yield 3.1%, 5-year dividend growth rate of 5.8%

DATA AS OF NOVEMBER 30, 2019.
SOURCE: KIPLINGER'S INVESTING FOR INCOME

ILLUSTRATION BY HUAN TRAN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